FINANCIAL TIMES

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Rolls-Royce to unveil supply deal with BMW

Rolls-Royce Motor Cars, known worldwide for the Spirit of Ecstasy figure (left) on its luxury cars, will today unveil a deal with BMW of Germany. Under the agreement, Rolls, a subsidiary of Vickers of the UK, will receive BMW components and technology to help cut the cost of producing its next generation of models. It is understood this includes BMW supplying Rolls-Royce with one of its most fundamental needs - a modern V12 engine to replace Rolls' current V8 power unit. Page 15

Berlusconi government on the brink: The government of Italian prime minister Silvio Berlusconi looks almost certain to collapse in a confidence vote on Wednesday after the weekend defection of Northern League leader Umberto Bossi. Page 14

China warns over debt bail-out: Chinese officials distanced the government from responsibility for the debts of state-owned companies after a series of foreign reports about difficulties over payments. Foreign investors were warned they could not count on the government bailing out projects that went sour. Page 14; China and Gatt, Page 13

US seeks closer ties with EU: The US is proposing a stronger trade and economic partnership with the European Union. The US is keen to win EU support for stricter international disciplines on export subsidies, particularly the use of official aid to win big infrastructure contracts in the developing world. Page 2

Trafalgar House executives met advisers last night amid expectations that the UK conglomerate's bid for regional power company Northern Electric could be made as early as today. Page 15

Fear of organised crime set to grow: Financial crime and fraud will replace terrorism as the most pressing security concern for international businesses, says report by Control Risks, a London-based international corporate security consultant. Page 14

Spanish stores chain in trouble: Galerias Preciados, Spain's second-ranking department store chain, went into receivership with debts of Ptas64bn ($485m). Britain's Marks and Spencer has been discussing the acquisition of some of the stores and another British department store, Harvey Nichols, is also believed to be interested. Page 17

Criminals target bootleg boom: British criminal gangs which run pub protection rackets are muscling in on the boom in cross-Channel alcohol smuggling, according to Frank Nicholson, managing director of Sunderland-based brewer and pub owner Vaux. The gangs have pressed landlords to sell smuggled beer in their bars or turn a blind eye to its sale in pub car parks. Page 5

German hostel set ablaze: Arsonists set fire to a German hostel for refugees from former Yugoslavia. A woman and two children were slightly injured, but nine other residents escaped unhurt from the building near the Dutch border.

Ulster drugs bust: Five people were being questioned after police and customs officers seized one of Northern Ireland's biggest hauls of cannabis resin.

Court move likely on BCCI: The High Court in London will today hear the latest plan for settling with creditors of the failed Bank of Credit and Commerce International. Any deal must be approved by courts in two other jurisdictions as well.

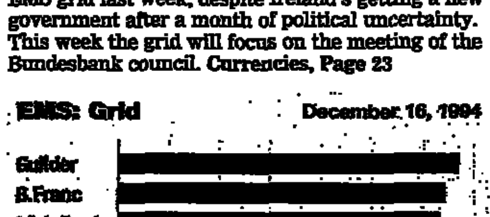
Iberia pilots to strike: Iberia edged closer to bankruptcy when pilots at the beleaguered Spanish state-owned airline said they would strike from December 28 to January 8. Page 3

Hezbollah threatens Israeli targets: Lebanon's pro-Iranian Hezbollah group responded to threats of Israeli military action by vowings its fighters would stage suicide raids on Israeli targets worldwide.

Lord Pitt dies: Lord Pitt, one of Britain's first black peers and a tireless worker against racial prejudice, died after a long illness at the age of 81.

European Monetary System: The Irish punt slipped marginally below the Belgian franc in the EMS grid last week, despite Ireland's getting a new government after a month of political uncertainty. This week the grid will focus on the meeting of the Bundesbank council. Currencies, Page 23

EMS: Grid December 16, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Saatchi given deadline to stay at advertising group

Ousted company founder consults brother on launching new agency

By Robert Peston in London

Mr Maurice Saatchi has been given until January 3 to decide whether to stay at Saatchi & Saatchi, the advertising group he founded 24 years ago. If he remains it will be in the largely honorific position of president and chairman of the subsidiary, Saatchi & Saatchi Advertising Worldwide.

After the boardroom coup, which on Friday night saw him ousted from the chairmanship of the company and removed from the board following a row over options, his friends said they were sure he would sever all connections with the group.

Mr Saatchi was this weekend discussing with his brother Charles whether they should set up a new agency. The chances of the brothers starting again are remote, according to a close colleague, who said: "After all the money they have made and at their age [on the cusp of 50], I don't think they really have the appetite for it."

Meanwhile, a senior adviser to the ruling Conservative party suggested Mr Saatchi might be a candidate for the vacant post of head of the Prime Minister's Policy Unit. Saatchi & Saatchi holds the party's advertising account and devised the "Labour Isn't Working" campaign.

Mr Charles Scott, Saatchi's chief executive, will this week start the process of finding a new name for the company, after the board's decision to drop "Saatchi" from the holding company's identity.

Mr Scott will also try to stop important clients deserting. The group is particularly worried about three accounts: Mars, the confectionery group, British Airways, and Mirror Group Newspapers, all of which were close to Mr Saatchi.

Such is Mr Saatchi's closeness to the Mars brothers, John and Forrest, that on Friday evening, when the board told him he was being removed, he contacted them in a last-ditch attempt to put pressure on Saatchi directors.

Mars, British Airways and Mirror Group Newspapers contribute about 8 per cent of the company's £800m ($1.2bn) annual revenue. The company therefore regards their potential loss as serious but not devastating.

Mirror Group is thought likely to keep its account with Saatchi unless it becomes unhappy with the agency's work. Mr David Montgomery, MGN chief executive, wrote to Saatchi's board last week to express his gratitude for Mr Saatchi's work over the years. However, Mirror Group sources suggested Mr Saatchi's departure had little impact on its day-to-day relationship with the agency.

British Airways said yesterday it had made no decision on the future of its relationship with Saatchi & Saatchi.

A senior advertising industry executive said he did not believe all three would desert. "It is very difficult for them to leave, because it would require them to change their advertising campaigns, which they will be reluctant to do," he said.

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Yeltsin threatened with choosing between bloodbath and 'betrayal'

Russia rejects peace talks offer from Chechnya

By John Lloyd in Moscow

The Russian government last night appeared to reject an offer of peace talks by Chechnya's President Dzhokar Dudayev, who had sent a telegram to Russian President Boris Yeltsin.

The stalemate between the Russian and Chechen leaderships yesterday threatened not just the stability of other northern Caucasian republics, but also that of the Russian administration itself.

In the week ahead Mr Yeltsin faces the agonising choice between committing troops to a bloodbath which may topple Gen Dudayev or seeking a compromise which may be seen by the army and Russian nationalist forces as a betrayal.

The Chechen offer of talks appeared to conform belatedly to Russia's demand that Gen Dudayev meet senior officials at the Russian military base of Mozdok, near the Chechen border. Russia had demanded that Gen Dudayev negotiate an agreement on handing over weapons, and had set a deadline of midnight on Saturday for compliance.

Gen Dudayev had earlier insisted on meeting the Russian president, but Russia offered talks only with Mr Nikolai Yegorov, a vice premier, and Mr Sergei Stepashin, head of the Federal Intelligence Service.

Yesterday saw relatively light engagements between the Rus-

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sian division to the north of Grozny and the Chechen forces – even though the Russian deadline had expired. However, a series of explosions was heard north of the city in the late afternoon, and nine Chechen refugees were reported shot dead by Russian soldiers.

The skirmishes between the Russian and Chechen forces have seen a Russian general in the field, supported by some of his superiors, refuse to fight. The past week has also seen the splintering of Russia's liberal/democratic forces over the issue, and hostility or at best scepticism from the parliament towards the administration's actions.

A series of threats on the part of senior officials has not been followed through in spite of the flouting of three separate Russian deadlines.

In a publicity coup, Gen Dudayev has asked Turkey to mediate in the conflict, according to the Turkish foreign ministry. The ministry said he had sent a telegram to President Süleyman Demirel, saying he was willing to stop fighting and "find a peaceful solution" with Turkish help.

The ministry said Turkey had been first to voice its concerns over developments in Chechnya and that "it has become obvious that Turkey's concerns were warranted".

Mrs Tansu Çiller, the Turkish premier, said in a separate message to Mr Victor Chernomyrdin, the Russian prime minister, that the Turkish people were worried about the fighting. The Chechens, like the Turks, are largely Moslem and had in the past been part of the Turkish empire.

The conflict has already provoked warnings from the Confederation of Caucasian Peoples, which aims to unite the region's republics, that if there is a war, "it would not be a Russian-Chechen war, it would be a Russian-Caucasian war."

Russian liberal deputies were still in Grozny last night, having held an all-night sitting on Saturday night with Gen Dudayev and his officials in an attempt to secure the release of Russian prisoners held by the Chechens. They claimed their presence probably helped avert an attack.

Mr Yeltsin sent troops to the mountainous region of about one million people after it had defied Kremlin rule for three years. Russian government officials say 14,000 Chechens have fled Grozny since the troops went in. Many headed for other autonomous regions in the Caucasus on Russia's southern rim.

We are the liberators, say Chechens, Page 2

Russia's deputy emergency situations minister stands over the body of a Russian soldier killed in Chechnya Photograph: Associated Press

UK Tories hit by cut in business funding

By Peter Marsh in London

Britain's ruling Conservative party faces sharply mounting difficulties raising funds from its traditional business supporters.

A Financial Times investigation shows a steep fall in donations from Britain's biggest companies and a poor performance by the secretive nationwide fund-raising network it has set up among business leaders.

A survey of Britain's largest 100 companies shows that donations to the Tories fell 34.3 per cent in real terms last year compared with 1988, an equivalent year in the election cycle.

The FT has also found that the network of business executives set up to fund the party is likely to fall well short of its financial targets this year, deepening the gloom surrounding Tory central office finances.

The party already has a £15m overdraft and is expected to face a struggle to break even in the financial year ending in March.

Up to half of the donations from companies and individuals to the party's central office are channelled through a network of 10 regional industrial councils, each one comprising as many as 12 Tory-supporting business leaders.

In the past the network has provided up to £4m ($6.3m) a year

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Fundraisers look worldwide, Page 5

Threat to aid for N Korea after US helicopter downed

By John Burton, Seoul correspondent

The US was trying yesterday to secure the return of a captured army pilot and the body of his co-pilot after their helicopter was shot down in North Korea, prompting US calls for a suspension of aid programmes.

The incident comes at an awkward time for both countries, following their recent agreement to halt Pyongyang's nuclear programme in exchange for the opening of diplomatic ties and economic aid.

President Bill Clinton said in a statement released by the White House that the helicopter had "strayed into North Korean airspace" on Saturday. He declared that the "tragic loss of life was unnecessary" and that "we are using all available channels to press for an early resolution of this matter".

The situation is potentially embarrassing to the US, as the helicopter appeared to violate the truce agreement that ended the 1950-53 Korean war. Aircraft from either side are not supposed to fly near the demilitarised zone between North and South Korea, let alone cross it.

Mr William Perry, US defence secretary, said the helicopter, which was on a training mission, had strayed into North Korea due to a navigational error. North Korea claimed that it then shot down the helicopter.

Republican Senator Pete Domenici, incoming budget committee chairman, said yesterday that unless North Korea co-operated over the incident, the US should not hand over funds promised for building safer nuclear reactors.

Democratic Senator Daniel Patrick Moynihan was asked whether the helicopter issue should prompt the US to delay implementation of the nuclear deal. "That is exactly what the [North] Koreans should be asking," he replied. "They are not exactly in an enviable position, are they? Their dictator [the late President Kim Il Sung] is dead. Their economy is dead."

Analysts believe that North Korea may try to use the incident for propaganda purposes and to extract new concessions from the US. But North Korea is unlikely to try to use returning the pilot as a bargaining chip as this would set back its efforts to improve relations with the US, while giving conservative US critics of the recent nuclear accord new grounds on which to oppose it.

North Korean officials have recently expressed concern that the new Republican-controlled Congress may try to block the nuclear pact, which critics believe offers too many concessions to Pyongyang.

The US has called for a meeting of the military armistice commission (MAC), which supervises the truce, to discuss the situation. But North Korea may refuse to attend: it withdrew from the MAC earlier this year in an attempt to pressure the US to sign a peace treaty to end the Korean war formally.

Instead, North Korea may use the current visit to Pyongyang of Mr Bill Richardson, a Democratic representative from New Mexico, to arrange the pilot's release.

Mr Richardson yesterday held talks with senior North Korean officials on the helicopter incident.

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.50	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pes60	Syria	S£50.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr8.50	Lebanon	US$1.50	Portugal (m'land)		Turkey	L30000
Germany	DM3.60	Lux	LFr65		Es225	UAE	Dh12.00

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Congress leaders outline tax cut scheme

By Nancy Dunne in Washington

Leading Republicans yesterday outlined an aggressive programme to cut both US government and taxes, promising to move swiftly in January to reduce spending before moving on to tax relief measures.

"We will do more in the first 100 days than has been done in the last 10 years in this town," Mr Dick Armey, the incoming House majority leader, said on television.

He and Congressman John Kasich, incoming House budget committee chairman, again attempted to seize the initiative from President Bill Clinton, who offered a tax reduction scheme on Thursday. They said the House, immediately after convening, would create an "American tax relief savings account" which would hold the savings from programme cuts to pay for tax reductions.

"Nobody on Main Street and no-one on Wall Street is going to think we're going to give out the goodies without cutting government first," Mr Kasich said. They would move immediately to lower previous budget caps and force appropriation subcommittees to make spending reductions. Those savings would go into the special "bank", Mr Kasich said.

Republican Senator Bob Packwood, incoming chairman of the finance committee, predicted Congress would pass a "balanced budget" amendment to the US constitution by April. He forecast this would win approval by the state legislatures next summer. Various versions of the amendment would require a balanced budget in five to seven years.

Senator Pete Domenici, incoming budget committee chairman, said there would be "a revolution in this country", with scores of programmes eliminated or cut.

"I've got the longest list in town," said Mr Armey, suggesting the Departments of Energy and Education could be eliminated and the Commerce Department and the Environmental Protection Agency severely reduced.

The Republicans indicated a willingness to work with Mr Clinton. His tax cut plan would be considered, said Mr Bill Archer, a Texas Republican. "He came late to the dance, but he's on the dance floor and we welcome that."

They said they would back a temporary line item veto, for perhaps four to six years.

We are the liberators, say Chechens

The root of the conflict lies in the break-up of the Soviet Union, reports John Lloyd

Mr Usman Imayev, the Chechen minister of justice, sits in his office in battle dress with grenades clipped to his belt, cartridge magazines curving out of his pockets and a Kalashnikov automatic on his fax machine.

"In March 1991," he says, "there was a referendum on the continued existence of the Soviet Union, in which millions of people voted, including in Chechnya, and it got a majority.

"Then in December 1991 three men, the leaders of Russia, Ukraine and Belarus, decided to break up the Soviet Union. Chechnya had no hand in that. We did not sign the federation agreement with other republics of Russia. We did not take part in the referendum on the Russian constitution. So when Yeltsin talks about unconstitutional acts – who began them?"

Mr Imayev's words have a certain logic. Most obviously, President Boris Yeltsin recreated Russia from the ruins of a state which was internationally recognised and functioning.

By acting to break up the Union, he lays himself open to the charge to which all revolutionaries who attempt to stabilise a new order are subject: what gives them the right to say where the revolution stops? If such action was taken to liberate Russia, why cannot Chechens act in the same way to liberate Chechnya from Russia?

Second, Mr Yeltsin broke up a state which was multinational. Even if Russian primacy was indisputable, the forms and many of the practices inscribed the equality of the races.

Now Russia has to remake herself according to Russian traditions – which are not even formally those of a Moslem mountain people like the Chechens, whose greatest pride is their long struggle against Tsarist colonisation.

In this knot of issues lies the root of the conflict, and of its importance to the Russian state and the future of its democracy and its reforms. Soviet communism gave Russia a cloak for prolonging imperialism and, at the same time, placed constraints on how it acted.

For those who liked Russia least – and the Chechens of all the peoples within Russia must take the prize for that – the new order is felt more as a burden than a liberation.

Thus when, three years ago, General Dzhokar Dudayev, a Soviet air force general, roused his nation to independence from Russia, he was playing on strings of national consciousness which vibrated ever more strongly to his touch.

"In the first year of independence," said Mr Suleiman Khadjimuratov, a prefect of Vedenskopvo region near the capital, Grozny, "many people were not sure what it meant. Now, no one will give it up."

The issue, it seems, transcends the manifest personal and public failings of a leader who has helped reduce the Chechen standard of living far below that of much of the rest of Russia and reneged on all of his promises of a better life and greater security.

Gen Dudayev is not greatly admired by most Chechens for his achievements – save only that he established independence. That appears to be genuinely, widely, popular. The attempts by Russian leaders such as Mr Nikolai Yegorov, the Russian deputy premier who is the presidential representative for Chechnya, to paint the country as a nation of "slaves" terrified into acquiescence by Gen Dudayev's thugs, are wide of the mark.

Chechnya thus poses a fundamental challenge to Russian statehood. This anyway is fragile and incomplete, cramped within borders which, though still vast, are unfamiliarly truncated in the minds of most Russians accustomed to regard the Soviet Union as their free space.

In the minds of the Chechens, Chechnya is the historic land of their fathers.

For Mr Yeltsin, who has for three years delayed attempting to unravel, or cut, the Chechen knot, it is the sharpest issue since the parliamentary revolt against him in the summer and autumn of last year.

To cede Chechnya on the grounds that its people do not wish to be part of the newly recreated Russia is to call into question all of the lands and peoples conquered in the 19th century, and even before.

There is, besides, some truth in the propaganda put out by the Russian authorities on Chechnya.

It has been for most of the past three years a state in which criminal bands operated relatively freely and where the proceeds from vast amounts of oil were diverted. And it has been a region from which the Russians, and many others (including many Chechens) have fled in fear of the future or in disgust at a present in which their nationality is treated as a barrier to employment and advancement.

Two voices are battling for Mr Yeltsin's ear.

One is that of his security and military advisers and ministers, for whom Chechnya is the place where the rot stops and the crack of firm government is heard. It says that a chance must be grasped firmly to demonstrate to Russians, their neighbours and the world that the integrity of the Russian state cannot be challenged without a great cost being paid.

The other voice is that of the democrats and liberals, the majority of whom are horrified by the war, not so much because of what it will do to Chechnya as because of what it will do to democratic institutions.

Mr Yegor Gaidar, leader of Russia's Choice and the most vocal on the issue, pleaded again with the president, with whom he is reluctant to make the final break, to pull back from an attack which would "destroy all you have achieved" in the way of reforms.

For Mr Gaidar and other reformers the coalition of forces mobilised to take Grozny at any price, emboldened by their success in making the president head of the war party, could sweep on to strike against the market and representative institutions.

Perhaps because of this cacophony of voices, Mr Yeltsin as of last night had not yet sanctioned the final push against Chechnya. Perhaps he cannot. After all, a sizeable part of the invasion force, that commanded by Gen Ivan Babichev, has stopped over 30 miles from Grozny and refused to move further.

However this affair ends, the Babichev challenge, with support from fellow generals Alexander Lebed of the Fourteenth Army and Boris Gromov, the first deputy defence minister, will have consequences which must be dealt with.

The Chechnya affair has not ended: it may only have just begun.

At stake are democracy, reform and the survival of the present administration. As 1994 runs out and the fourth year of the new Russia begins, these are all at hazard.

Mountain conflict 'could spark unrest throughout north Caucasus'

Partisans prepare for guerrilla campaign

By Steve LeVine in Grozny

If Russia's troops try to take Grozny by force they risk being drawn into a protracted guerrilla war in Chechnya's mountainous terrain which could spark unrest throughout the Islamic peoples of the north Caucasus, Chechen resistance fighters say.

In a village outside Grozny, Mr Ayub Khansulatov, a 30-year-old Chechen who is carefully placing pins into a set of hand grenades, says: "We have to get ready." Pointing to a stash of armour-piercing rockets, machine guns and Kalashnikov rifles lying a few feet away, he adds: "These are for Yeltsin."

As Moscow's ultimatums to the Chechen people expire, hundreds, perhaps thousands, of partisans like Mr Khansulatov are preparing to wage a guerrilla war. Along the roads out of Grozny are groups of fighters dressed in full battle gear huddling round fires of burning tyres to keep warm in the sub-zero temperatures.

"I have been ready to fight for a week but now we have been ordered to take to the mountains and fight a guerrilla war," Mr Khansulatov says, boasting of his skirmishes with Russian troops.

Many of Grozny's 400,000 inhabitants have already left for the mountains to the south. On Chechen television, bearded soldiers urge the rest of the population to leave the town to the troops.

They say the crowds of civilians, which have been mobbing Russian forces to persuade them to turn back, should move out of the way of fighting. One soldier reads from an instruction manual indicating the most vulnerable points of a tank.

Mr Khansulatov says his detachment of 150 men would fight for as long as it took to make the Russians leave. He says he has already moved his wife and three children to seek shelter in the south.

"I have taken my belongings to the mountains. If I die, my son will get them," he says, standing in his house bare of all furniture except two beds, a load of weapons, and a television and video recorder on which he plays a tape of his brother's wedding celebrations. "Why cannot they let us live in peace. You see how good life can be?"

A man reported to have been wounded in a shootout with Russian troops yesterday is carried to hospital by his colleagues AP

John Bruton: eager to see progress in Ulster talks

Road ahead for Irish premier is well signposted

By John Murray Brown in Dublin

Mr John Bruton, Ireland's new premier, has a boyish candour which often makes him seem out of place in the wheeler-dealing atmosphere of Irish politics.

Yet, after his more than 20 years in the Dail, there are few politicians with a more acute knowledge of the workings of parliament. At 47, and with a wealth of ministerial portfolios under his belt, the real question is whether he has the qualities of diplomacy and political toughness that Ireland needs at this watershed in its history.

Ireland is entering uncharted waters. The Northern Ireland peace process is at a critical juncture as paramilitaries enter exploratory talks with UK officials and unionists await the publication of the important joint framework document which London and Dublin hope will form the basis for all-party talks on Ulster's future.

Mr Bruton will enter the process at the head of an uneasy coalition of conservative and radical elements led by Fine Gael, an essentially conservative party, and including Labour, the party of modern European secular politics, and the Democratic Left, the successor of the Official IRA.

Personality problems may resurface. Mr Bruton believes he was let down when Mr Dick Spring, leader of the Labour party, went into coalition with Fianna Fail in 1992. The two politicians also squabbled over economic policy in the last Fine Gael-Labour coalition, which fell in 1987.

Today one key difference is that not only is there a shared determination to keep Fianna Fail out of office, but the economy's strength will make decisions on sensitive issues like public spending less divisive.

Mr Bruton's first task is to assert control over his own party machine. A challenge in the short term is unlikely but any slip could precipitate one.

The policy objectives are well signposted. On Northern Ireland, Mr Bruton's team will have to pick up where the outgoing government left off, while stamping its own character on the peace process. How he will balance the need to keep hardline republicans harnessed to the peace process, without compromising his sympathies for the northern unionists, is difficult to see.

In a deliberately low-key acceptance address to the Dail last week, Mr Bruton stressed his greatest concern was to see progress sustained. If the outgoing administration secured the peace, he said, his task would be to foster the "reconciliation" of the island's two religious traditions.

In the Forum for Peace and Reconciliation on Friday, his first meeting with Mr Gerry Adams, leader of Sinn Féin (the IRA's political wing), provided little more than a cursory handshake. Few believe Mr Bruton can replicate the rapport Fianna Fail enjoyed with the republicans.

Fine Gael, historically identified as the party which voted for the Anglo-Irish Treaty of 1921 which enshrined partition, is still not comfortable with Sinn Féin.

But in Mr Prionsias De Rossa, Democratic Left leader, Mr Bruton will have a useful ally. A former IRA internee, Mr De Rossa provides ample evidence of the benefits that accrue to those republicans who abandon the bullet in favour of the ballot box.

On social questions like divorce and abortion there is more common ground between the parties.

Mr Bruton campaigned in favour of legalising divorce when it was last put to a referendum in 1986. All three parties seem agreed it may be over-ambitious to contemplate winning backing in a referendum substantive reforms legalising abortion, although there may be a good chance of passing legislation on an abortion information bill allowing women to be referred by doctors to specialists outside Ireland.

Perhaps the area where there will be most strain will be on the economy. Mr Bruton's Fine Gael is the party of low taxation and tight spending. Labour and the more radical Democratic Left will want to take a more Keynesian approach, injecting spending into the economy to create jobs and reduce the burden of poverty for the lower paid and unemployed.

Mr Bruton's first test is to see a new budget through parliament. Democratic Left, in charge of the big spending social welfare portfolio, is expected to push for a mildly expansionary budget in an attempt to ease unemployment.

Mr Bruton's budget record is far from convincing. In 1982, when he was finance minister in Dr Garret Fitzgerald's coalition, his attempts to impose VAT on child clothing and shoes was opposed by independents. This led to the defeat of his budget, and eventually the coalition's downfall.

Kohl backs bombers for Bosnia

Chancellor Helmut Kohl will today throw his political weight behind a decision to send German Tornado fighter bombers to Bosnia by telling MPs that Germany owes it to its allies to become involved in former Yugoslavia, writes Michael Lindemann in Bonn.

In an interview with Bild Zeitung, Germany's best-selling newspaper, Mr Kohl appealed to deputies, who must approve any deployment, to set aside their party affiliations and listen to their consciences.

The cabinet is expected to decide tomorrow whether it will send the aircraft, medical facilities, engineers and naval units. Two German navy frigates are already part of a fleet enforcing an embargo. However, officials said Germany would continue to resist pressure to send combat troops.

US seeks closer economic ties with EU

By Guy de Jonquières

The US has proposed a stronger economic and trade partnership with the European Union, aimed at curbing the growth of subsidised export financing and co-ordinating policies more closely towards Japan, China and big emerging markets in the developing world.

According to a senior administration official, the proposal is intended to reassure the EU that the US has not sacrificed transatlantic relationships in its enthusiasm for closer trade links with Asia and Latin America, and to seek practical ways of working together on shared commercial objectives.

The administration's thinking was outlined by Mr Ron Brown, US commerce secretary, at meetings in Brussels last week with Mr Jacques Santer, president-elect of the European Commission, and Sir Leon Brittan and Mr Martin Bangemann, respectively the commissioners for trade and industry.

The US has not decided what form the new partnership should take. But Mr Jeffrey Garten, under-secretary of commerce for international trade, who accompanied Mr Brown, said it would demean the proposal to describe it simply as a free trade area.

He said the administration's aim over the next year was to elevate the European dimension of its international policies in several ways.

A top US priority was to win EU support for stricter international disciplines on export subsidies, particularly the use of official aid to win big infrastructure contracts in the developing world.

Though the administration has sharply stepped up support for exports, Mr Garten said its ultimate goal was to reduce the role of governments in international markets. He was worried by Japan's untied aid, which he said totalled $15bn to $20bn (£9bn-£12bn) annually, almost half of it for infrastructure projects in China.

The US suspects the aid is used to favour Japanese companies and wants more information about how it is spent. Washington also wants international action to curb the use of bribes to win export orders.

Mr Garten said another important goal of the proposed dialogue with the EU was closer co-ordination of trade policy in the new World Trade Organisation and other multilateral forums.

However, Mr Garten said this did not rule out further US bilateral trade initiatives, particularly towards Japan and China, where very vigorous action was likely.

The US also wants to seek ways of reducing obstacles to trade with the EU, particularly in the information industries. Mr Brown has proposed that the two sides should hold preparatory talks before a G7 meeting on telecommunications policy in Brussels early next year.

Turkey's rights record jeopardises customs union

A crucial meeting in Brussels today is under threat, write John Barham and Kerin Hope

Greek intransigence and anger at Turkish human rights abuses are threatening a crucial meeting in Brussels today between the European Union and Turkey.

EU foreign ministers, senior European Commission officials and a Turkish delegation are scheduled to take a final decision on establishing a customs union, due to come into force on January 1 1996.

But the sentencing earlier this month of eight Kurdish MPs to long jail terms for violating Turkey's strict security laws has crystallised opposition to the union in the European parliament and some national governments. Foremost among the opponents is Greece, which, after failing to persuade Germany, the EU's current president, to postpone today's meeting, appears determined to veto the deal.

Officials hope the meeting will still go ahead, with a decision postponed for a few months to allow tempers to cool and negotiators time to reach a compromise. However, were the meeting to be cancelled at the last minute, there could be an angry confrontation between Turkey and Europe which would damage an already troubled relationship.

Ankara state security court's verdict on the MPs on the eve of the European Union's Essen summit could scarcely have come at a worse time. It embarrassed the German presidency, which had lobbied for customs union.

European Commission President Jacques Delors said in a French television interview that jailing the Kurdish MPs was "scandalous". He added he was against customs union without "guarantees" that Turkey would respect human rights.

Last Thursday the European Parliament adopted a non-binding resolution calling for today's meeting to be suspended and demanding the jailed MPs' release. Support in some EU governments for Turkey all but evaporated after the trial.

To make matters worse for Turkey, a Kurdish human rights lawyer was murdered last week, and Ankara's security court begins proceedings today against two human rights campaigners accused of violating anti-terrorism laws by writing a booklet on torture. The booklet was partly financed by the EU.

Greek opposition to customs union is linked more closely to the Socialist government's efforts to secure EU entry for Cyprus by the end of the 1990s than to its traditional hostility to Turkey.

Mr Andreas Papandreou, Greek prime minister, failed at last week's EU summit to win agreement on a definite date for starting talks on Cypriot accession. Together with customs union, Greece will continue to block the release of Ecu600m (£472.2m) in EU aid to Turkey, held up for eight years by lack of progress on reuniting Cyprus.

While the European Commission is committed to including Cyprus in the next EU enlargement, membership negotiations are likely to be complicated by the island's division into separate states.

However, France, which assumes the EU's rotating six-month presidency next month, is determined to see customs union adopted and will press Greece to abandon its objections and Turkey to make concessions on human rights.

Customs union would give European companies free access to a market of 60m people and an economy that until this year was the fastest growing in the OECD. Half Turkey's trade is already with the EU and two thirds of its foreign investment comes from Europe.

Turkey would in effect join the single European market, with some of the rights and obligations of an EU member. Yet in contrast to the position of the post-communist countries of eastern Europe or even Malta or Cyprus, Brussels has told Turkey that membership is not on the agenda. It has twice rejected Turkish applications for full membership.

For Turks, who see themselves as Europeans, rejection is deeply wounding. They believe concern for human rights is a smokescreen for Europe's anti-Moslem prejudices. President Süleyman Demirel says: "Turkey is a European country. Europe is not only a geographic area, but a system of values. I think Turkey should be part of Europe, it should not be ousted."

Prime Minister Tansu Çiller says customs union will "anchor Turkey to the west in a definitive and irreversible way". Rejection, she and many European officials argue, would halt Turkey's progress to full democracy. It would benefit extremists, marginalise democrats and stunt the economic growth that could foster stability.

However, Mrs Çiller bears great responsibility for Turkey's present predicament. It was she who urged parliament to lift the eight Kurdish MPs' parliamentary immunity, allowing them to be prosecuted. Parliament has still not approved a political reform package her coalition government promised three years ago.

Yet diplomats believe a bill introduced into parliament on Friday creating a human rights ministry indicates that pressure from Brussels is having a positive effect.

But there is no sign of an end to violence in the mainly Kurdish south-east, where fighting between security forces and the Kurdistan Workers' party (PKK) has claimed more than 13,000 lives in the past 10 years. The battle against PKK guerrillas both entrenches the military's political power and is used to justify security laws that punish "crimes of thought".

As Mr Klaus Kinkel, Germany's foreign minister who has supported customs union, put it last week: "If Turkey wants to join Europe, it must not turn a cold shoulder to everything Europe stands for."

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Difficult choices ahead for Mercosur

Trade quartet must decide on direction after euphoria of pact, reports **Angus Foster**

Late-night summits often spawn hyperbole and talk of breakthrough, but the upbeat statements coming out of the colonial Brazilian town of Ouro Preto this weekend have a basis in fact.

The Mercosur trade group of Brazil, Argentina, Paraguay and Uruguay agreed to become a customs union from January 1. The decision, an idea which four years ago was dismissed by many as politically inspired and wishful thinking, will create the world's second largest customs union, linking economies with a combined GDP of about $800bn (£490bn) and 200m consumers.

Mr Fernando Henrique Cardoso, Brazil's president-elect, described the agreement as a "historic landmark", while President Carlos Menem of Argentina said its effects would be "highly positive" for the four countries' economies. Both men marvelled at the achievement, remarkable given that relations between Brazil and Argentina have until recently been poor and that their economies for decades encouraged protectionism.

Despite the celebrations, some difficult choices lie ahead. The partners must decide whether to push on towards a common market with free movement of labour and capital, or whether to concentrate on leading South America's integration with Nafta in the planned Free Trade Area of the Americas (FTAA). Mercosur's success also threatens to concentrate investment in the richer areas of Brazil and Argentina, two countries which already suffer from dangerous differences in regional wealth.

'Historic landmark': (left to right) Uruguay President Luís Alberto Lacalle, Brazil's Itamar Franco, Juan Carlos Wasmosy of Paraguay and Argentina's Carlos Menem join hands after the weekend pact AP

According to diplomats, the catalyst for agreement was the decision to allow sensitive and less competitive products temporary exemptions from the free trade regime. For trade between the four countries, where tariffs have been falling since 1991, less than 10 per cent of trade will get the special exemptions. However, these products, ranging from Argentine paper to Brazilian peaches, will have their tariffs reduced to zero by 1999.

With the common external tariff (CET) covering trade with countries outside the area, less than 10 per cent of products will have an exemption from the tariff. In these cases, governments have until 2001 to apply the CET, whose average rate for all products is 14 per cent. Two sensitive areas, cars and sugar, will also be excluded until the next century.

A second important reason for agreement was the recent, and still fragile, economic recovery of Brazil, which has seen its monthly inflation rate fall from 50 per cent in June to less than 3 per cent this month because of a new currency, the Real.

Now the four countries must decide how much further to go. The Protocol of Ouro Preto, which gives Mercosur a legal status and lets it negotiate with other trade groups such as the European Union, also commits the partners to review by 2001 whether they want a full common market. Predicting the outcome is difficult, especially since Argentina holds presidential elections next year, and Brazil in 1998.

Until the review, the two main partners are determined to limit the growth of Mercosur's institutions. A Uruguayan proposal to establish a supranational court to rule on trade disputes was opposed by Brazil and Argentina, which feared their sovereignty would be diluted. Mercosur's secretariat will remain a small, administrative organ, and policy and decisions will remain with the four governments.

Despite these intentions, however, closer integration is likely to lead to stronger Mercosur institutions and devolved sovereignty.

In place of a court, the countries agreed over the weekend to set up an arbitration tribunal. A Brazilian-Argentine proposal to merge their automotive industrial policies by 2000 also implies the ceding of national interests to those of Mercosur.

Mercosur officials talk of the next few years as a time of "deepening" integration. But an important distraction is the 2005 deadline for a continent-wide free trade area, which was agreed at the recent Summit of the Americas and which will involve a convergence of existing trade blocs like Mercosur, Nafta and the Andean Pact countries.

Mercosur has already opened talks with Chile and Bolivia about their joining the free trade area rather than becoming customs union members.

Mercosur is the natural negotiating partner for Nafta, especially if relations continue to improve between the two biggest countries, the US and Brazil. However, there are real limits to Mercosur's further expansion. Some countries such as Venezuela want to establish links, principally to reduce their reliance on US trade. But Caracas is closer to Miami than Mercosur's main crescent, between São Paulo state in Brazil and Buenos Aires.

The expanse, and poor communications, of the Amazon are also a barrier to further integration between north and south of South America.

BAT nears American Tobacco takeover consent

By Richard Tomkins in New York

BAT Industries, the British tobacco and financial services group, looks well placed to win a US court's consent this week for its planned $1bn (£600m) takeover of American Tobacco, the fifth biggest US cigarette maker.

Over the past two weeks the US Federal Trade Commission has been arguing in a New York court that the takeover should be blocked on competition grounds because BAT already owns Brown & Williamson Tobacco, the third biggest US cigarette maker.

The case closed last Wednesday with the judge reserving his decision, so neither side yet knows knows the outcome. But lawyers for the Federal Trade Commission acknowledge that BAT seems to have come out ahead.

Mr Merlin Orlans, who represented the FTC during the hearing, said that the judge had clearly not been disposed towards the FTC's arguments.

During the hearing, the FTC argued that the US tobacco industry was already highly concentrated because it had only six participants. If two of the participants combined, competition would be further reduced and it would become easier for the remaining participants to raise prices.

BAT countered that a merger of Brown & Williamson with its 11 per cent market share and American Tobacco with its 7 per cent share would increase the combined company's ability to compete with Philip Morris and R.J. Reynolds Tobacco, the two industry giants, which together account for 70 per cent of US cigarette sales.

The FTC appeared to start the proceedings with a strong case, but as the hearing progressed, it became evident from Judge Milton Pollack's grilling of key FTC witnesses that he was far from convinced by the FTC's arguments.

Judge Pollack is thought likely to announce his decision tomorrow or Wednesday. But the FTC and BAT may yet reach a settlement before then under which the FTC would drop its opposition to the takeover.

For the FTC, a compromise would be better than an outright defeat. For BAT, an agreement would eliminate the likelihood that the FTC, if defeated, would further delay the takeover by lodging an appeal.

One compromise that the FTC and BAT are understood to have considered would involve an agreement by BAT that it would shed an American Tobacco factory and some its brands if the takeover went ahead.

WORLD NEWS DIGEST

Iberia pilots to strike on pay cut

Iberia, Spain's embattled state-owned flag carrier, inched closer to bankruptcy over the weekend when its pilots' union said they would strike over the peak holiday period between December 28 and January 8.

The pilots have rejected a viability plan backed by Iberia's other unions to salvage the crippled airline. The plan involved pay cuts of 15 per cent for the pilots, and their union said it was only prepared to negotiate salary cuts if Iberia's management was replaced. The confrontation means the management may introduce a more drastic restructuring plan involving large-scale redundancies among the airline's 25,000 labour force and the sale of some of its subsidiaries.

Iberia, which has debts of Pta424bn (£2.06bn) half of which are short term, has written off accumulated losses of Pta144bn, reducing its capital and reserves to a mere Pta69bn. The airline is on course to lose Pta44bn this year and the company said yesterday the pilots' strike would cost Iberia at least Pta10bn in lost revenue. *Tom Burns, Madrid*

Former Banesto chief quizzed

Mr Mario Conde, former chairman of Banco Español de Crédito (Banesto), is to be questioned today by a Madrid high court judge who on Friday ordered the imprisonment of Mr Arturo Romaní, the bank's former deputy chairman.

Mr Romaní was arrested and refused bail by Judge Manuel García Castellón after two days of questioning in connection with a fraud probe into the banking group, which collapsed a year ago. Legal officials said the questioning centred on about Pta5bn (£24.3m) allegedly defrauded from Banesto shareholders.

Mr Conde was indicted on fraud charges last month. He became chairman of Banesto in 1987, and was dismissed by the Bank of Spain last December, together with his fellow Banesto directors, after an official inspection discovered the banking group had overvalued its Pta7,000bn assets by Pta503bn. *Tom Burns, Madrid*

Carter starts peace mission

Former US president Jimmy Carter yesterday began his peace mission to Bosnia to try to break the diplomatic deadlock among the warring parties. As his visit got under way, defeated Bosnian-government troops were withdrawing from Velika Kladusa, a strategic town in the north-western Bihac pocket which fell to Serb and renegade Moslem forces.

After meeting President Franjo Tudjman of Croatia, Mr Haris Silajdzic, the Bosnian prime minister, and UN officials, in the Croatian capital Zagreb, Mr Carter left for Sarajevo amid tight security. Today he is to meet Bosnian Serb leader Radovan Karadzic in Pale, the Serb mountain stronghold above Sarajevo. *Laura Silber, Belgrade*

Russia signs energy charter

Russia has overcome long-standing reservations and joined 45 other nations in signing a European Energy Charter designed as the single most important instrument for stimulating the integration of former eastern bloc economies into the world market. However, the US declined to sign the treaty in Lisbon on Saturday, mainly because it considers the charter fails to guarantee adequate protection for investors and falls below standards already obtained by the US in bilateral and other multilateral investment agreements. The treaty provides free and equal access to energy markets among the signatories. *Peter Wise, Lisbon*

China seeks to resolve copper dispute

By Tony Walker in Beijing

The China International Trust and Investment Corporation said yesterday it was committed to a "reasonable solution" in its dispute with London Metals Exchange copper traders and other creditors over non-payment of copper trading losses totalling $30m-$40m.

In Citic's first detailed comment on the dispute, which dates back to early this year, a spokesman attributed the problems to dealers associated with the organisation's Shanghai branch acting without the knowledge or authority of Citic itself.

Mr Xu Xiwei, a senior adviser to Citic Shanghai, said two dealers and two managers, including the former president, had been charged with corruption and detained.

The Citic official, however, did not commit the organisation to a settlement.

The official said that this would depend on the outcome of meetings to be held soon in London.

But he noted that Citic Shanghai was "an independent legal entity under the law of China" and was therefore responsible for its own profits and losses.

Mr Xu said an international accounting firm had been entrusted with responsibility for investigating the losses and suggesting solutions. "I sincerely hope all parties concerned will find a reasonable solution through friendly consultation," Mr Xu said.

He blamed creditors, including western banks, for lax procedures in their efforts to assist Citic Shanghai to overcome its trading losses.

"I must regretfully point out that certain foreign counterparts have got some screws loose in their own house," he said. "In other words, what they have done has to some extent assisted such a thing happening unintentionally or intentionally."

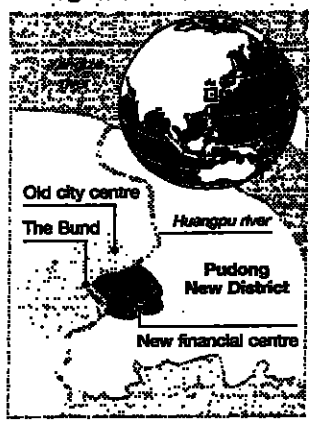
Mr Xu said that credit had been extended to Citic's Shanghai branch equivalent to "five or six times" equity. This was done without notifying Citic headquarters, let alone requiring any guarantee from Citic.

"Any counterpart, if he is prudent, should have related extension of credit to Citic Shanghai's capacity and in line with China's relevant laws and regulations governing foreign exchange."

Banks scramble for Shanghai's prime sites

Tony Walker analyses the municipality's disposal of the city's sought-after waterfront properties

Shanghai's financial hearts



OBJECTS OF DESIRE: Properties along Shanghai's waterfront, the Bund Sarah Murray

Bangkok Bank is renovating No 7 on the Bund, Banque Indosuez has signed a letter of intent to purchase No 29, and the Bank of China is repurchasing its old headquarters next to the Peace Hotel.

After a hiatus of more than a year, the Shanghai municipality is moving on the disposal of the majestic properties on the city's waterfront, the Bund.

The Shanghai Stock Exchange has indicated an interest in purchasing the most prominent landmark on the waterfront – the former headquarters of the Hongkong and Shanghai Bank. The SSE's expression of interest may prompt a bidding contest since Hongkong Bank itself is keen to move back into its 27,000 sq m premises, now used as the mayor's office and Communist party headquarters.

The establishment of the Shanghai Bund Buildings Function Transformation Corporation has created a vehicle for the sale of 37 properties in an area the Chinese have taken to describing as Asia's Wall Street, although a revolution in the financial sector will be necessary to realise the dream of restoring the Bund to its former glory.

At the same time, across the Huangpu River, on the east bank, work is advancing on creating a separate "finance district" that will be linked with the Bund by underground railway, pedestrian tunnels, and bridges to create a central business district of Shanghai.

Mr Zhang Zhe, vice general manager of the Shanghai Lujiazui Finance and Trade Zone Development Company, is confident that marriage between the old and the new can be effected to the advantage of both. "The two banks of the Huangpu can help each other and pull each other forward," he says.

Lujiazui Development was formed in 1992 to develop a 1.51 sq km site in the Pudong development zone, including 69 buildings, among them offices of China's big specialised banks, insurance companies and investment corporations. A new securities exchange is also under construction, and space is being set aside for residential facilities.

Mr Zhang estimates development costs for the site, including buildings and infrastructure will run to about $4bn, of which $1bn has already been committed. Twelve buildings are actually under construction, and 20 are in the advanced planning stage.

The Lujiazui finance and trade zone, as the financial district will be known, will be dominated by three skyscrapers, including a Ministry of Foreign Trade and Economic Co-operation structure rising 88 floors. If the planners' dreams are realised, one of Asia's more remarkable developments will rise from marshy ground in place of a gaggle of decaying godowns, crumbling houses and the odd paddy field.

Western bankers in Shanghai welcome plans to create a central business district spanning the Huangpu and envisage no great problems in the city creating a business core bisected by a big waterway. The Huangpu, which runs into the Yangtze near its mouth, accommodates an enormous amount of shipping traffic.

Mr Fiepko Klug, chief representative in China of Banque Indosuez, sees no reason why the "heart of the city" should not span the Huangpu "like the left and right bank in Paris".

But in common with his colleagues from other banks interested in returning to their homes on the Bund, Mr Klug is extremely circumspect about prospects of securing their old properties, and even more reticent on the issue of price.

Banque Indosuez, he says, has signed a letter of intent which is no more at this stage than an indication of an intention to discuss re-acquisition. "We would see our return to the Bund as an indication of confidence in the development of Shanghai and in the future of China," he says, "but the final decision has to be taken on the basis of price."

Other organisations, such as Hongkong and Shanghai Bank, eyeing their former Bund properties covetously, are even less forthcoming. Mr Richard Graham, chief representative in Shanghai of Baring Securities, said there were "political sensitivities" over the prospect of companies such as Hongkong Bank returning to their former "hunting lodges" on the Bund, from which they were unceremoniously ousted after the 1949 revolution.

Hongkong Bank is said to have been asked to pay between $150m and $200m for its former headquarters, but there is also no doubt that the symbolic value of acquiring the property would be almost incalculable. However, Mr Wei Wenyuan, general manager of the Shanghai Stock Exchange, said its present location was insufficient for its fast-growing business.

The SSE is at present operating from a converted former hotel, but is building a new exchange in the Pudong area. According to a Chinese news agency report, the SSE wants the old Hongkong Bank site to "get a foothold on the Bund which is to become the symbol of Shanghai as an international financial centre".

While the larger western institutions continue to play a game of cat and mouse with the Shanghai authorities over price and leasehold terms, a Thai bank has quietly stolen a march.

The Bangkok Bank signed a 30-year lease in October, 1993 on No 7 and renovations are well under way.

Mr Chalit Tayjasanant, chief representative in China, said negotiations with the owner, Chang Jiang Shipping, had been completed in a "few months".

Facilitating the sale was the fact that the building was solely owned by the shipping company, avoiding ownership complications afflicting other properties.

For most of the properties, the owner is the municipality, and complex commercial and political considerations involved in the sale of these historic sites have weighed heavily.

Delays are attributable in part to an argument within the local government over the best means of disposal – whether by auction, tender or private treaty.

One awkward issue not being addressed in talks on re-acquisition, at least not publicly, is the curious happenstance that the former owners are being obliged to lease back, for substantial sums, properties that belonged to them in the first place.

Leadership of ANC admits party disarray

By Mark Suzman in Bloemfontein

The top leadership of the African National Congress has acknowledged that the party is in organisational disarray and was unprepared for the demands of becoming the dominant partner in South Africa's government of national unity.

In his official report to the ANC's triennial conference in Bloemfontein yesterday Mr Cyril Ramaphosa, ANC secretary general, said the party had not sufficiently prepared itself for dealing with the bureaucratic tasks of government. As a result, the slow flow of new legislation, combined with ineffective policy implementation by a recalcitrant bureaucracy, had delayed delivery on the party's election promises.

In a well-received address to 3,000 ANC delegates from around the country, Mr Ramaphosa also admitted that the party's paid-up membership had dropped off sharply following the April election, and that unmet debts incurred during the election campaign had led to the use of fewer full-time party officers. However, he said he expected the conference to agree on a new membership structure to help combat this as well as cutting the excessive workload for top party officials.

The admissions are an acknowledgement by the ANC of some grassroots dissatisfaction with the slow pace of change since it came to power following the country's April elections.

Still, the conference seems likely to accept a proposed strategy document presented yesterday by deputy President Thabo Mbeki, which puts forward a generally moderate political line and calls for a national consensus on economic policy centred around opening the South African market to increased trade and capital flows to boost local investment and productivity.

However the wide-ranging document notes that, while the ANC needs to improve its standing among whites, its primary focus should be the needs of the country's black community. It also says that the bureaucracy, army and police force should be rapidly transformed to make them more representative in terms of both race and gender and more accountable to government.

Both Mr Ramaphosa and Mr Mbeki's speeches followed the line set in President Nelson Mandela's opening address to the five-day conference on Saturday, when he admitted that the pace of change had been slow, but insisted there were no short-term solutions to the entrenched problems South Africa faces. "Ours is not a programme of quick handouts but one for serious and lasting transformation," he said.

Mr Mandela also went out of his way to defend the ANC's commitment to fiscal discipline and economic reform against radicals calling for faster change. He insisted that such policies were "neither luxuries nor requirements foreign to the ANC's own policies", stressing that they represented the best way of achieving sustainable growth.

In this light, Mr Mandela said that given the difficulties of governance and delivery, the ANC should make more of an effort to explain to people the reasons behind unpopular decisions. "This is the best antidote to attempts by opportunists of all hues to gain popularity on the basis of radical-sounding but impractical propositions," he said.

The president reiterated that one of the main obstacles facing the government's economic programme was the preponderance of economic power in white hands. This, he said, led to "attempts to discourage new entrants and foreign investors because the cartels overcharging society fear competition".

Israel reviews plan for stock market tax

By Julian Ozanne in Jerusalem

Israel's cabinet yesterday reviewed controversial government plans to tax stock market profits from January 1 as debate over economic policy widened. Mr Yitzhak Rabin, Israeli prime minister, met key economic officials after senior cabinet ministers launched a campaign to have the tax scrapped, amended or postponed.

Since the unpopular capital gains tax was announced earlier this year analysts say it has contributed to the continuing weakness on the Tel Aviv Stock Exchange and calls have been growing in Mr Rabin's Labour party for it to be abolished.

The Mistanim two-sided index has plunged almost 30 per cent from 240-250 points last year to a current level of 170-180 points and shows little sign of a quick recovery. The continuing weakness of the market has placed severe constraints on the government's privatisation programme and the ability of private companies to raise capital.

The abolition campaign has been led by Mr Shimon Shetreet, economics minister, who has argued the tax is a big factor in Labour's recent decline in the opinion polls. A recent Gallup poll showed that 36 per cent of those polled opposed the tax while 32 per cent supported it. The same poll showed 58 per cent of investors in the stock market wanted the tax scrapped.

Mr Shetreet has called the tax "absurd and draconian" and said it would hurt the small investor most. The right-wing Likud opposition party has also condemned it. A private member's bill to scrap it was defeated 36-26 in parliament last week.

Mr Abraham Shochat, minister of finance, has warned that any attempt to abolish the tax would send negative signals to investors about government economic policy. He says the tax brings Israel into line with other countries and will be structured to allow deduction of losses, and has strongly criticised opposition to the measure based on political considerations. General elections are due in November 1996.

"Zigzagging on the issue, speculating as to what will happen in 1996, and flinching because of political intrigue and fears, all mean fleeing responsibility," he said last week. "The leadership of a country is evaluated according to its determination, its backbone and its trustworthiness. Popularity ratings and political intrigues should not determine what needs to be done."

The tax has been strongly supported by Mr Jacob Frenkel, Bank of Israel governor. However many Labour members feel Mr Rabin is open to persuasion and could agree to postpone its implementation or amend it.

INTERNATIONAL PRESS REVIEW

Taiwanese eye China warily

TAIWAN

By Laura Tyson

Taiwan's President Lee Teng-hui says, "Look! We have democracy!" The Chinese response (left): "Stupid!" China Times

"Will smiling Siew take off the white gloves?" asks a headline in yesterday's *Independence Evening Post* in Taiwan.

The respected liberal daily refers to the island's intricate arm's-length pas de deux with China. Mr Vincent Siew, renowned for his ever-present grin, was put in charge of shaping the island's policy toward its giant neighbour and ostensible rival in a cabinet reshuffle last week.

The question embodies both the hopes and dreads of Taiwanese, who find themselves variously fearing an invasion by the People's Liberation Army, dreaming of a return to the ancestral fold and planning how to plunder the El Dorado of the orient.

It also reflects the chief fear of many ordinary Taiwanese: that of being involuntarily absorbed by China, which views Taiwan as a rebellious province and threatens to use force if the island should formally declare independence. Most countries accept Beijing's view and do not accord diplomatic recognition to Taipei.

"Given Siew Wan-chang's background in trade and economics, in the future, cross-strait commerce will take precedence over politics, and some people find this disturbing," the article says. During his previous brief as economic planning minister, Mr Siew drafted a plan to transform the island into a regional business hub. Press reports suggest that he has been brought in to head the Mainland Affairs Council to carry out that plan.

The missing link – literally – in Taiwan's grand ambition to become a regional centre for business, finance and transport is direct shipping and flights to China, banned by Taipei since the Kuomintang government fled to the island after losing China's civil war in 1949. Businessmen who have investments in China and are forced to travel back and forth via Hong Kong see things differently from the average Taiwanese.

In a Sunday editorial, the *Commercial Times*, a financial daily which broadly supports government policy,wrote in favour of the Economic Planning Ministry's suggestion to create an "offshore transport centre" which would be used to establish direct shipping and air links with China.

"From an economic point of view, direct cross-strait transport would save time and money and promote development of two-way trade and economic development on both sides," the paper argued.

The pro-government *China Times*, in an editorial published yesterday, said the ruling Kuomintang would be likely to step up economic ties with China, possibly opening direct links, in order to gain support in crucial legislative elections late next year and first-time presidential elections slated for early 1996.

"The iron votes have rusted," the paper said in a reference to the loss of once loyal supporters to opposition parties. "Faced with upcoming elections... what other more effective card does the ruling party have to play?"

But in a letter published last week in the *United Daily News*, which is seen as being more closely aligned with the Kuomintang faction whose members came from China in 1949, a Shanghai-based Taiwanese businessman wrote: "Many people believe that Taiwanese businessmen support direct links, but actually that is not so. If direct links were opened tomorrow... like a magnetic force, Taiwan would be swallowed alive."

Taiwanese fear invasion, dream of a return to the ancestral fold and plan how to plunder the El Dorado of the orient

But the issue of direct links will become, in practical terms, a moot point in 2¼ years in any case, as the *Economic Daily News* hinted in an editorial last week. "The 1997 deadline for Hong Kong is forcing us closer by the day. In the past we could avoid dealing with the direct links issue... but soon we will be compelled to face [China] directly," the paper warned. The British colony reverts to Chinese sovereignty in 1997.

Eritrea struggles to rebuild as aid meeting begins

Pledges by donors are likely to be generous, writes Leslie Crawford

Eritrea, Africa's newest nation, will hold its first donors' conference with the World Bank and western governments in Paris today and present its masterplan for rebuilding a country emerging from more than a quarter century of civil war.

"Our global needs are tremendous," Mr Haile Woldensai, Eritrea's finance minister, said yesterday, declining however to place a figure on Eritrea's aid requirements.

"Every sector of the economy was affected by the war, but we also want to be realistic and take into account the financial constraints of the donor community."

The Eritrean People's Liberation Front has been running the Red Sea state since it defeated the Ethiopian occupation forces in May 1991 following a 30-year liberation war. But Eritrea only became a fully-fledged sovereign state after a referendum on independence from Ethiopia in May 1993.

It took another year before it could join the World Bank and the International Monetary Fund, hence the delay in seeking international assistance for its reconstruction efforts.

Government officials such as Mr Haile still work without pay. So do the teams of navvies – former combatants awaiting demobilisation – who have been rebuilding the bomb-damaged port of Massawa and the country's few dilapidated roads.

In the countryside, villagers trek for miles to build small dams and stone terraces on food-for-work projects.

Millions of tree seedlings are being grown in nurseries, ready for planting to help fix the soil on the eroded hillsides.

The donor community is impressed by the single-minded tenacity with which Eritreans have gone about the task of forging a new nation. The aid pledges at the Paris meeting are expected to be generous.

But Eritrea, which inherited no external debt upon independence (President Meles Zenawi of Ethiopia, himself a former guerrilla fighter, agreed to shoulder the debt obligations of his country's former province), is wary of falling into the trap of aid dependence which afflicts the rest of the continent.

"We want to establish a new approach between donors and the recipient country," Mr Haile said. "Development programmes and priorities should be established by Eritreans, not by the donor community."

The Eritrean government has welcomed offers of international assistance, but it is less keen on accepting the legions of highly-paid foreign consultants who roam around Africa.

A recent offer by the Italian government to rebuild the railway linking Massawa to the capital, Asmara, at a cost of $85m (£54m), was politely turned down.

President Isayas Afewerki told the Italians Eritrea would rebuild the railway on its own. The first new sleepers were laid last month.

There are few illusions, however, over the scale of the task which faces the new government.

Even after three years of peace, Eritrea cannot feed itself. It depends on international donations to meet the needs of 1.5m people – half of the population.

A further 500,000 Eritreans are awaiting repatriation from refugee camps in neighbouring Sudan – a country with which Eritrea severed diplomatic relations two weeks ago because of Khartoum's alleged training of Eritrean Islamic insurgents.

Nevertheless, foreign investors, led by the US and Israel, are showing an interest in Eritrea now that a foreign investment code and property and land rights have been established.

Several US oil companies, including Mobil, Amoco and Hunt, are negotiating oil exploration contracts for the shallow waters off Eritrea's Red Sea coast.

Israel hopes to start fishing operations soon after a 30-year break, while Middle East and German concerns are already negotiating for licences.

Blackouts in Algiers after saboteurs hit power supply

Algiers has suffered serious electrical power difficulties for three days because of sabotage to the Algerian capital's power supply, according to Algerian officials, Agencies report.

A "serious incident" cut power last Wednesday night and remaining power was being rationed among city districts, Sonelgaz, the state-run electricity supplier, said at the weekend. The problem could continue for some time, it added.

Government officials, who refused to be named, said five towers carrying electricity lines had been blown up in Zemmouri, east of Algiers. There was no claim of responsibility by last night.

Algerian television reported that a big food warehouse supplying Algiers, Boumerdes to the east and Tipasa to the west was destroyed by armed men who planted bombs and set it on fire.

According to the television, monitored by the BBC, an unidentified group of some 40 attackers planted the bombs throughout the building, which contained huge stocks of dried milk, medicines and domestic electrical appliances.

Algeria says more than 10,000 people have been killed in the civil strife since January 1992 when the authorities cancelled a general election that fundamentalists were poised to win.

Sabotage has accounted for $2bn in damage between February 1992 and December 1993, according to the government.

All white-collar criminals in Malaysia to be caned

By Kieran Cooke in Kuala Lumpur

The Malaysian government says it will make caning a mandatory punishment for white-collar crimes.

Mr Syed Hamid Albar, the law minister, said white-collar crime had grown considerably in recent years and accounted for 15 per cent of all crimes reported. However, white-collar criminals did not cause their victims physical injury so the canings administered to them would not be as severe as those delivered to other violent offenders.

Mr Hamid said businessmen, bureaucrats, company employees and lawyers were among those convicted of crimes. Caning in Malaysia and Singapore is carried out with a thick bamboo stick or rotan and causes intense pain, often splitting the skin.

The Malaysian cabinet also approved a plan to do away with all trials by jury because of increasing difficulty in finding juries for long trials.

● Malaysia's GDP grew by an annual rate of 8.9 per cent in the third quarter of the year, according to Mr Anwar Ibrahim, the finance minister. In each of the two previous quarters GDP grew by 8.3 per cent on an annualised basis. Mr Anwar said inflation in the third quarter had moderated to 3.2 per cent. However last week Malaysia's central bank said inflation for the first 10 months of the year was 3.7 per cent.

Bootleggers threaten pub landlords

By Roderick Oram, Consumer Industries Editor

Criminal gangs that run pub protection rackets are reported to be muscling in on Britain's booming business in bootlegging cheap French beer by intimidating inner-city pub landlords.

Bootleggers have told some landlords in the cities of Sunderland and Newcastle upon Tyne in north-east England to co-operate in making it easier to distribute illegally imported beer, according to Mr Frank Nicholson, managing director of Vaux, the Sunderland-based brewer and pub owner. The government has refused to cut import duties on alcoholic drinks and tobacco to make imports from France less lucrative. And it has played down reports that organised crime has infiltrated beer bootlegging, although it recognises that the problem exists with tobacco imports.

The brewing industry estimates that some 3.5 per cent to 4 per cent of beer sold in Britain – or some 15 per cent of beer consumed at home – is imported from France.

Mr Nicholson says there is clear evidence that some bootlegging is being organised by the criminals who run pub protection rackets. "I am alarmed because it is a new element to an old vice, and the avenues to do it are very easy to exploit," he said. "It is a neat extension of their business."

Bootleggers have "suggested" actions to some Vaux licensees. The most popular include: selling smuggled beer in their bars; turning a blind eye to it being sold in their car parks; and opening their pubs later than usual to ensure that more people are at home when the bootleggers take a sales trip around the neighbourhood.

"I have seen myself bootleggers selling beer from a van outside one of our Sunderland pubs," said Mr Nicholson. "The pub car park is a good meeting point."

Protection racketeers often threaten landlords with violence or damage to their property, although Mr Nicholson said he was not yet aware of any bootleg-related violence.

Typical consequences of failure to comply with protection rackets are damage to property and starting fights in bars.

Rumours of intimidation by bootleggers had begun to circulate in the trade earlier this year, but Mr Nicholson is the first brewer to go on the record about the problems his landlords face in tough inner-city areas.

A London brewer told Mr Nicholson of a similar experience in Croydon, south London, when they met at the Brewers and Licensed Retailers Association earlier this week. He has also been told of intimidation in Manchester.

Conservatives' fundraisers look worldwide

By Jimmy Burns

One of the first big individual donors to the Conservative party to be publicly identified was Mr John Latsis, the Greek shipping billionaire, who is thought to have contributed £2m to the party when Baroness Thatcher was prime minister – he used to send her bunches of flowers.

"He was one of our biggest donors during the 1980s," a senior Tory confirmed. While unwilling to put a precise figure on the sums received, he recalled how Mr Latsis once wrote out two cheques for contributions of £200,000 each in less than two weeks.

Tory insiders also confirm that Li Ka Shing, the Hong Kong millionaire and a former business associate of Mr Mark Thatcher, Mrs Thatcher's son, was another significant foreign donor. He is thought to have contributed £500,000 after being approached by senior British business figures with interests in Hong Kong including the oil magnate Mr John "Algie" Cluff.

The Tory party's Hong Kong financial connection has continued with the involvement of Mr David Davies, the chairman of Johnson Matthey, the metals group, who is in charge of the party's overseas fundraising efforts.

Some donors to the Conservative party have become fugitives from British justice, increasing pressure in parliament for more transparency in political donations. Concern over donations to the Conservatives by Mr Asil Nadir, the former head of the collapsed Polly Peck empire who jumped bail, led to an inquiry by the House of Commons home affairs committee, which reported in April this year.

The Conservative majority on the committee saw no advantage in changing the rules on political cash contributions, although the opposition Labour party continues to call for a ban on overseas donations.

While UK-registered companies are required by law to declare substantial political donations, the role played by offshore companies and individual donors was known only to a small group of senior Tories.

In September 1991, the Conservative party was publicly challenged to disclose the extent of its dependence on "foreign funds" by four senior Labour party MPs including Mr Tony Blair, who is now Labour's leader.

The Conservative party's fund-raising operation is headed by Lord Hambro, chairman of Hambros, the blue chip merchant bank, and Sir Philip Harris, chairman of discount carpet retailer Carpetright, writes William Lewis.

They were appointed party treasurer and deputy treasurer respectively in 1993. Insiders say they have developed a "nasty and nice" fund-raising technique in their quest to overcome the party's £15m ($24.6m) overdraft.

"Hambro is the titular head - he sweet-talks the donors – and Harris comes in the next day to collect the cheques," one Tory party source said.

Sir Philip said the two tended not to work together in raising corporate donations. "We are a team, but Charlie and I do not go to the same people. I look after the retailers and industrialists and he looks after insurance and banking."

How donations to the Conservative party from companies have declined

Company	Real terms % 1991-93 on 1986-88 (constant 1994 money)	Total 1986-1993 (£000)
BIGGEST 100 COMPANIES		
Tomkins	775.5	213.5
Rolls-Royce	76.7	275
Legal and General	24.1	214
Scottish & Newcastle	17.9	380
Glaxo	17.6	455
Forte	9.5	582.5
P and O	-0.5	730
Hanson	-2.1	892
Tate & Lyle	-5.2	231.7
Ass'ted Brit. Foods§	-11.4	850
United Biscuits	-12.2	778.5
Whitbread	-13.4	271.7
Sun Alliance	-22.0	385
Inchcape	-24.7	224
Marks & Spencer	-25.9	250
Rank Organisation	-24.7	250
Argyll	-48.8	210
Reckitt & Colman	-54.8	220
Allied Domecq	-65.0	611.4
RMC	-70.6	222
General Accident	-78.0	280
BIG DONORS OUTSIDE TOP 100		
Caledonia Invsts	183.4	345
Robert Fleming	87.2	280
Barings	72.9	461
Hambros	61.1	498
IMI	53.9	215
Glynwed	8.5	274
Slough Estates	-5.4	214.3
John Mowlem	-19.4	192.9
Newarthill	-34.6	379
Guardian R. Ex'nge	-48.9	376
Taylor Woodrow	-15.3	724.9
Trafalgar Hse	-51.0	390
W'ern Utd In'ments	-59.8	571
Racal	-70.1	225
Hartley In'ment Trust ‡	-76.3	349
Totals		
100 biggest companies	-16.3	10,139.6
20 big donors	-19.5	6,180.0
All companies	-17.6	16,319.6
TORY PARTY		
All donations	1.4	82,810.0
Total income	16.4	108,280.0

Cash gifts to the Conservatives from Britain's largest 100 companies have fallen sharply in the past five years. Donations last year from the biggest 100 UK companies – ranked by stock market capitalisation at the end of September 1994 – were down 34.3 per cent in real terms compared with 1988, the comparable year in the general-election cycle. Total donations to the Conservative party from all companies and individuals over the period have, however, more than kept pace with inflation. This shows that the party has had some success in making up shortfalls in gifts from big companies by taking in more cash from unidentified sympathisers.

Source: company and Conservative party annual reports and FT data. [illegible]

Tax rule is overturned

By Barbara Ellis

A court ruling in London means that people who come to live in Britain will no longer be subject to tax on income from investments made offshore before they arrived in the UK.

Three judges in the Court of Appeal ruled in a little-noticed judgment last week that Section 739 of the UK's Income and Corporation Taxes Act, a wide-ranging anti-avoidance provision, is limited to those who are resident in the Britain at the time of investing offshore.

The UK's Inland Revenue said it believed the potential loss of revenue resulting from the decision would be £18m ($29.5m).

The Revenue had pursued Professor Peter Willoughby for income tax on income rolling up within a Royal Life (Isle of Man) investment bond. Prof Willoughby, who taught law at the University of Hong Kong for some years until 1987, originally invested in the Isle of Man bond while resident in Hong Kong. But he was living in the UK again when the original bond matured, and he reinvested in 1989 and 1990 in similar bonds. Prof Willoughby, who now lives in Alderney, one of the Channel Islands near the French coast, was supported in his court action by Royal Life.

Mr Chris Lintott of Baileys Shaw & Gillett, the law firm which acted for Prof Willoughby, said the decision was a landmark because it overturned previous practice and interpretations of legislation virtually unchanged since 1936.

The Revenue said after the case that it might still appeal to the House of Lords, the unelected upper house of parliament which acts as the UK's final court of appeal.

UK NEWS DIGEST

MP rebukes newspapers over lottery

Mr Jack Straw, the opposition Labour party's shadow home secretary, is to protest to the Press Complaints Commission because two newspapers yesterday named the man who won a record prize of almost £18m ($29.5m) in the UK's national lottery last week.

Winners are allowed under lottery laws to choose to remain anonymous, and some newspapers at first offered rewards to readers who led them to the £18m winner, who emphasised that he wanted anonymity. The winner was identified in some newspapers last week as an Asian father of three who lives in Mr Straw's constituency. He was named for the first time yesterday in Yorkshire on Sunday and in the News of the World, the top-selling newspaper in the UK.

Mr Straw urged the commission to issue "clear guidance on privacy", saying: "If they fail to do so, it will simply hasten the day there are very stringent privacy laws." He said he had already complained to the commission about the way the press had hounded the winner's family. But the behaviour of the two Sunday newspapers was "in a different league of irresponsibility".

Insurers attack fraud

Insurance companies have cut fraudulent claims by about 25 per cent in the past two years, says an Association of British Insurers survey released yesterday. However, fraudulent claims – estimated to have totalled £600m ($984m) this year – still add on average about 4 per cent to the cost of insurance, the association calculates. Mr Mark Boleat, director-general, said insurance companies' efforts at preventing fraud were "now beginning to pay off, with signs of a fall in the number and cost of fraudulent claims."

Job prospects improve

Next year will open with the best first-quarter employment prospects since 1990, says a survey by Manpower, the employment services company. Although manufacturers have replaced services as the most optimistic sector of the economy, employers in the energy and water industries are much more pessimistic.

The survey – based on responses from more than 2,000 employers – shows that 18 per cent are forecasting job increases and 16 per cent losses.

Workplace worries rise

Half of all employees feel their jobs are less secure than they were last Christmas, says a survey of workplace opinion by the white-collar union MSF. It says job security is the main concern in the workplace. The survey also shows that nearly half of respondents think they are treated badly by their employer and that stress at work is increasing.

Passengers may sue

Cunard, the shipping line owned by Trafalgar House, the engineering and property conglomerate, may be sued by angry holidaymakers denied a Christmas cruise on the QE2. Compensation claims against the line could amount to $2.5m. Some 300 passengers were turned away hours before the liner set sail for New York on Saturday night because of unfinished plumbing in about 100 of the ship's 950 cabins.

MANAGEMENT

A testing time in the job market

Motoko Rich and Richard Donkin examine the controversies provoked by psychometric assessment

How do you think you would react if you had to view corpses and accompany them to the airport? Visit prisons? Live in areas where disease is an everyday problem?

Such questions may seem bizarre but they are routine for applicants to the UK's Foreign and Commonwealth Office.

Before filing an application, would-be diplomats complete a "self-assessment questionnaire" which is meant to test their suitability for the sort of professional and social life they can expect while working for the foreign office. Candidates score themselves, and if they reach a designated threshold, they are invited to proceed with the application. If not, they are told to consider another career.

Customised psychometric tests of this kind are not just used to identify the flexible types required to defend and advance British interests. Their popularity is rising in the UK and some estimates suggest the majority of larger companies have used the tests to assess personalities and abilities for recruitment, career development, team-building and, in some cases, redundancy selection.

The tests are not without controversy. Several cases recently have highlighted the varying quality of test providers and the dangers which can arise if they are sold for the wrong purpose or fall into the wrong hands. These have led to calls from occupational psychologists, personnel managers and, most recently, trade unions for better administrative standards.

Testing is not new. Intelligence and personality tests were first used on a large scale by the US army to determine who could handle the stress of trench warfare in the first world war. In the 1950s and 1960s, interest in the UK was fuelled by the growth of graduate trainee schemes in large corporations, when employers used the tests on inexperienced candidates.

Experts say it is important to distinguish between ability tests, which measure numeracy and verbal skill, and personality tests, which measure people's perceptions of their own behaviour.

If properly used and designed to evaluate skills relevant to the job being filled, many psychologists agree that ability tests can be highly effective. The use of personality tests, however, is more controversial.

Unison, the public service union, has raised questions about the use of personality tests when Anglian Water decided it needed to shed 900 staff as part of a big reorganisation. All staff were given a personality test to help managers decide who would be given new jobs.

According to Unison, the company said the tests would only influence 30 per cent of the decision. But Unison says the tests must have had more weight in the process. The union also claims the company determined the competences the test would identify before it had determined what characteristics or skills were needed for the jobs.

In the US, a court in California awarded \$1.3m (£800,000) damages against a supermarket chain which had used a personality test to recruit security guards. One of the recruits complained that the questions were intrusive and bore no relation to the job he was being required to do.

Similar complaints have been voiced by UK employees who lost their jobs at Southwark Council in London after personality tests were used to decide who was made redundant in a job-shedding exercise earlier this year. Unison is taking up the Southwark incident in an unfair dismissal case before an industrial tribunal.

It may take one of these cases to remove the veil of statistical and psychological jargon that characterises academic debate and salesmanship in psychometrics. The excessive use of jargon is one reason why psychometric tests are so open to abuse. Management neglect is another issue. Because tests are used mainly as a recruitment tool, senior executives have often been content to leave their adoption and use to personnel specialists who, some critics believe, have been too ready to embrace psychometrics as another "boy scout badge" in the field of human resources.

"There is a lot of black magic around psychometric tests," says Steven Blinkhorn, co-director of Psychometric Research & Development, a consultancy which develops custom-built tests. "It gives personnel managers a sort of cachet because it gives them something they can do that others in the organisation cannot."

That said, many psychologists and personnel managers argue that psychometric tests can add value to a company's selection or career development processes and that they are better guides to a candidate's potential than the interview, references, letters of application and other traditional selection methods.

"The same kind of critical criteria that are applied to tests are not applied to the interview as a selection method," says Clive Fletcher of Goldsmith College, London University. "The interview does not predict future performance at all and it is a marvellous vehicle for bias."

Blinkhorn and his consultancy partner Charles Johnson have written that such tests can often "bamboozle an unsophisticated public with pseudo science" and that tests "play fast and loose with statistical methods, and . . . make claims that do not stand up to close inspection."

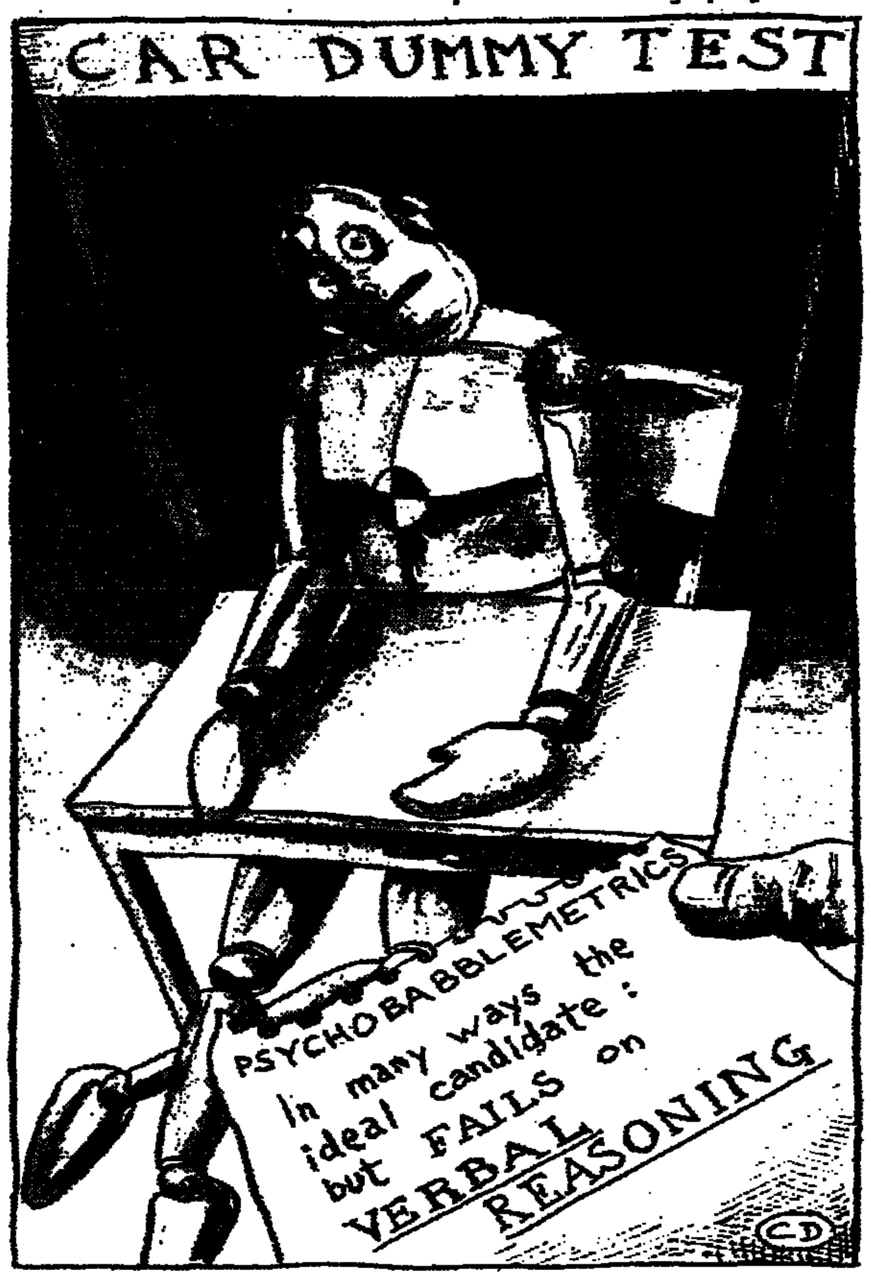
Steve Sefton, manager of ASE, the business psychology division of test publisher NFER-Nelson, is not as critical but concedes the tests have their limitations. "Tests are really designed to be predictive of people's behaviour, rather than their job performance," he explains.

Along with the other leading test publishers, however, he insists that personality tests can be helpful tools in selection if used and understood correctly in conjunction with other recruitment methods.

Many psychologists, however, believe no test should be used in isolation or for redundancy purposes. "Tests should be used as a part of a battery of selection techniques such as interviews, group discussions and application forms," says David Bartram of Hull University, and a member of the test standards committee at the British Psychological Society.

Saville and Holdsworth, the UK's largest test publisher, with a turnover of £30m worldwide, publishes hundreds of tests, including the Occupational Personality Questionnaire, which is one of the most respected on the market. Other reputable tests include the 16PF, published in the UK by ASE, and the Myers Briggs, which was developed by two Americans in the 1960s. There are more than 5,000 tests in the English language on the market, some of which, say the BPS, are of dubious validity.

The Institute of Personnel and Development has developed a code of conduct for its members and the six leading test publishers have issued guidelines for test publishers and users. But none of these bodies has regulatory clout; nor can they vouch for the effectiveness of test methods.



In an attempt to introduce some standards into the field, the BPS has devised certificates of competence for those administering ability tests; equivalent qualifications for personality tests are expected sometime next year.

To obtain a certificate, company personnel officers have to enrol in BPS training courses run by chartered psychologists. The courses train non-psychologists to distinguish between types of tests, analyse statistical data, identify the abilities or characteristics that need to be tested, and judge if a test is valid for a company's needs.

Leading publishers are also attempting to police their own tests and improve training – though their motives may not be entirely altruistic. Users of Saville and Holdsworth's tests, for example, must attend week-long courses before being allowed to purchase any of the materials. Such training is expensive: users can expect to pay more than £4,000 for a course. The requirement to attend in-house training before tests can be bought, though, means the publishers may be "milking the market", according to Pauline Grant, business director of IARC-Ashridge, a consultancy.

The respectable publishers, however, are not the main problem. Price often influences choice and cheap, quick-fix tests that claim to be easy to operate are often run on computers and probably have as much to do with objectivity as the "Are you the world's best lover?" quizzes in teenage magazines which have proved highly popular.

Research dating back to 1958 shows that poor tests are about as good as star-sign columns in Sunday magazines. A psychologist tested 68 personnel managers and later gave them each identical reports describing their personality. In what is known as the Barnum effect, half of them described the report as "amazingly accurate", and 40 per cent of them said it was "rather good", while the other 10 per cent thought it was "half and half".

Before any test is adopted, employers should conduct a thorough job analysis. "The first thing you need to do is identify the task demands of the job," says Blinkhorn. "Ask if people need to bring those skills ready-made or if some of these skills are in part learned on the job."

Recruiters needed to talk to people already doing the job, as well as supervisors and management. Once the skills and characteristics genuinely needed for the job are identified, then an employer is better placed to choose the best test to evaluate them.

Perhaps the most important thing for potential test-users to remember, however, is that the tests have their limitations. When assessing personality, Grant says "people with very different personality characteristics could both do the same job very well".

Bartram also says employers need to decide whether they want to measure personality at all before they decide which test to use. All too often, he says, the debate is focused on the quality of the test rather than the question of whether personality is relevant to the job at all.

If a company does decide to use psychometric instruments, he says there is no justification for choosing inappropriate tests, just to save a few pounds. "In the long run, companies who use unreliable, cheap tests are going to lose out by doing that. They will be picking people who are not the best for the job."

What's the score on choice?

Selecting a test involves more than flipping through a few catalogues and picking one that sounds good. Conscientious employers should consider a number of factors before choosing a test.

David Bartram of Hull University, and a member of the British Psychological Society's test standards committee, encourages employers to examine any potential test for:

- Scope – what areas of ability or personality are you trying to cover?
- Accuracy or reliability – will the same test yield similar results if the same individual sits in two weeks' time?
- Validity – does the test measure what it says it does?

For example, if a test yields a score on a person's persuasiveness, will the person who scores high on that scale actually be more persuasive than others who score low on the scale?

A good test should always include statistical data to back up its claims of validity, and the BPS competency courses should train users to be able to read these statistics.

- Fairness – is there any evidence to show that the test is unfairly biased against certain groups, such as women or ethnic minorities?
- Acceptability – how well will the test you are planning to use fit into the organisation and its image?
- Practicality – assess the time, resources and cost factors involved with the test.

PIONEERS AND PROPHETS

Nicoló Machiavelli

Amid the grey-suited pantheon of management greats, Nicoló Machiavelli (1469-1527) holds an unlikely, but undeniable, place. A Florentine diplomat and writer, his career was colourful – punctuated by interludes of indulgence in "petty dissipations". His abiding relevance to the world of management rests on a slim volume, *The Prince*.

The Prince is the 16th-century equivalent of Dale Carnegie's *How to Make Friends and Influence People*. Embedded beneath details of Alexander VI's tribulations, lies a ready supply of aphorisms and insights which are as appropriate to many of today's managers and organisations as they were nearly 500 years ago.

"It is unnecessary for a prince to have all the good qualities I have enumerated, but it is very necessary to appear to have them," Machiavelli advises, adding the suggestion that it is useful "to be a great pretender and dissembler". But *The Prince* goes beyond such helpful presentational hints.

Like all the great books, it offers something for everyone. Take Machiavelli on managing change: "There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things." Or on sustaining motivation: "He ought, above all things, to keep his men well-organised and drilled, to follow incessantly the chase."

Above all, Machiavelli is the champion of leadership through cunning and intrigue, the triumph of force over reason. An admirer of Borgia, Machiavelli had a dismal view of human nature. Empowerment was not in his vocabulary.

Unfortunately history has repeatedly proved that a combination of being armed to the teeth and devious is more likely to allow you to achieve your objectives. It is all very well being good, says Machiavelli, but the leader "should know how to enter into evil when necessity commands".

According to psychologist Robert Sharrock of consultants YSC: "Like the leaders Machiavelli sought to defend, some executives tend to see themselves as the natural rulers in whose hands organisations can be entrusted. Theories abound on their motivation. Is it a defensive reaction against failure or a need for predictability through control? The effect of the power-driven Machiavellian manager is usually plain to see."

In companies addicted to internal politics, Machiavelli remains the stuff of day-to-day reality. But, warns Sharrock, Machiavellian management may have had its day. "The gentle art of persuasion is finding fashion with managers. The ends no longer justify the means. There is a return to the age of reason against which Machiavelli rebelled."

For many the age of reason has yet to dawn. Managers may not have read *The Prince* but will be able to identify with Machiavelli's observation that "a prince ought to have no other aim or thought, nor select anything else for his study, than war and its rules and discipline". In the corporate trenches, Machiavelli remains useful Christmas reading.

Stuart Crainer

The annual agony of Christmas giving

ADRIAN FURNHAM

It is now the Christmas party season: a time for lechery and indolence. It is also a time of gift exchange, personal and corporate, which like so many things at Christmas is fraught with difficulty.

Gift buying is an annual torment which means so much to the chancellor of the exchequer, the high street shops and the credit card companies. But what makes this business of gift exchange and present-buying so difficult?

Maybe it is because they are imbued with much meaning – they can be statements of influence, power, taste, sympathy or emotion.

It is not only the problem of to whom one gives presents or not, and/or how much/little to spend, but more importantly what sort of item to purchase. Gifts are one of the ways in which the mental pictures others have of us are transmitted and likewise, we disclose to our gift recipients our pictures of them.

The subtlety of the exchange can be best seen when it goes wrong. We can all remember, as a child, receiving a present which was insulting because we had outgrown it.

On the other hand, over-eager parents may cause extreme anxiety by giving gifts for which the child is simply not ready. Most toy manufacturers recognise this problem and indicate the toy's appropriate age range. Wouldn't it be fun to do the same for adult presents, putting labels on aftershave like "ideal for Essex man"; or executive toys "for the middle manager going nowhere"?

It is precisely because we give people something "suitable", as we perceive it, that individuals are so frequently given the same sort of present. How many executives receive bottles of whisky?

Should a person receive a variety of unusual presents, one may wonder at the gift-givers' very different perceptions and the real identity of the recipient.

The Christmas present also imposes an identity on the giver, as well as the receiver. Some men confirm their "macho" identity by presenting non-personal gifts, such as cigars following the birth of a child. There is the conspicuous presentation of expensive gifts to celebrate simultaneously one's wealth and generosity. A gift may also be a portion of oneself – a sort of example of one's talent – so the artistic give pictures, gardeners a plant.

Gifts can be an important source of dominance particularly if one cannot reciprocate. Occasionally, adults can embarrass each other by the generosity of the present. To accept a gift is, to an extent, to accept the identity it imposes.

However, gifts can be rejected if they are perceived as unfriendly acts. A giver may express contempt by purchasing a gift for an individual which is inferior to those openly given to others. Gifts may have symbolic qualities – a gold watch for good riddance, travel luggage encouraging a long journey.

"Hint-type" presents may also be rejected – cosmetics to conceal poor skin, a watch for the habitually late. Many "joke" presents fall into this category, for example, hot, spicy chewing gum (for the loud mouthed). Joke gifts may also reflect a rather insecure relationship. Just as easily, gifts can be an expression of guilt, such as an attempt to compensate for a certain deficit. They make excellent items to use in the atonement of sins but they can be easily rejected as not being sufficiently compensatory.

Exchanging presents is another, more acceptable form of rejection. There are so many people returning unwanted gifts to the stores after Christmas (clearly not always because the size is wrong) that one wonders if anybody received a present which they wanted.

Some groups try to prevent gift inflation, such as setting a limit on a present's cost.

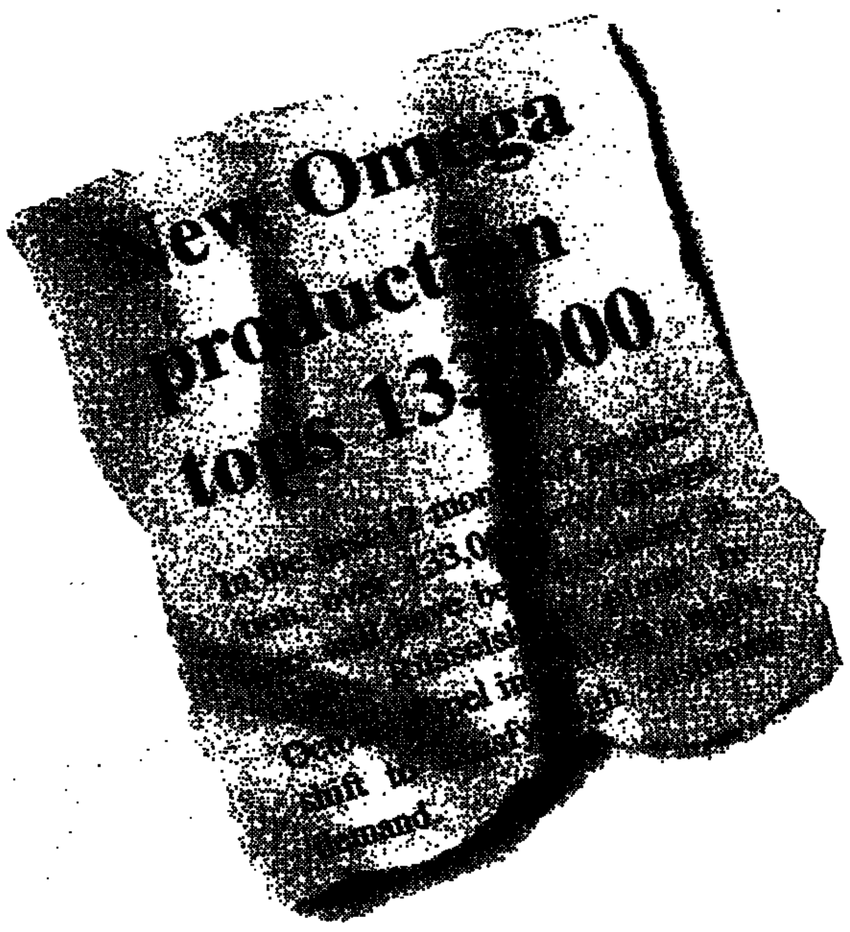
Another way of coping can be to set aside certain goods or services as specifically gift-related and somehow not part of the mundane economic world. Confectionery and gift tokens play an important role here.

But, however hard people try, the social rankings so beloved by the British are reflected in, and maintained by, Christmas gifts, for the allocation of the quality and quantity of presents brings people into comparison who are rarely contrasted with one another. "What did you get for Christmas?" provides excellent data on exactly where someone stands in the pecking order.

Both buying and receiving presents is a maze, full of rules and conventions and sub-texts and messages about multiple facets of the giver and receiver alike. Even a statement of one's ideal gift can be a minefield, as the British ambassador to Washington discovered.

The diplomatic envoys from several countries were canvassed by a local radio station; the French ambassador described his ideal Christmas present as peace throughout the world, the Canadian ambassador wished for an end to starvation, while the British ambassador requested a nice box of crystallised fruit.

The author is head of the business psychology unit at University College London.



PEOPLE

The catalyst for new year resolutions at Hoechst

Jürgen Dormann is bringing about radical changes at the world's biggest chemicals group, say **Christopher Parkes** and **Daniel Green**

According to German corporate tradition, Jürgen Dormann had one crucial qualification for his elevation last May to chairmanship of Hoechst: more than 30 years' unbroken, faithful service. By another traditional measure, he is not qualified at all: he is not a chemist. But the 54-year-old former finance director – the first non-technical man to run the show – shows no signs of suffering any deficiencies as a result.

Dormann himself suggests that it is partly because he has been around so long that the most radical shake-out yet seen in Germany's much-restructured chemicals sector has so far been the success it has. Hoechst's staff do not see him as an "occupying force", he says, and he is thus accorded more accolades than resistance.

His colleagues, meanwhile, laud him for not succumbing to the paralysing conservatism and aversion to risk which routinely characterise many long-serving German managers. "Paranoia is a thing of the past," says one.

So, too, is the old hierarchical muddle which used to typify the structure of the world's biggest chemicals group and fourth biggest pharmaceuticals company. On January 1, everything will be turned inside out – officially.

The number of operating divisions will be cut from 15 to seven. Clearly separate stand-alone operations will be run as such. Responsibility, exercised centrally for decades, will be distributed. Rewards will be commensurate with performance. The management board will give up a seat to its first foreigner, an American. Questions from the public and press will be answered. And concerns from the population about the chemicals and drugs industries – particularly in Germany – will be addressed in an accessible fashion.

Dormann, a skinny, nervous-looking Hessian, has earned much popular credit for instituting all this change. But the reality appears to be that he is what is known in other business cultures as an enabler. His assumption of power in the wake of the unlamented Wolfgang Hilger, a dour man with little appreciation of the merits of communication, has simply released reserves of talent which had been bottled up.

Dormann scoffs at any suggestion that outside business consultants have had a hand in his scheme. All the changes and new ideas came from an eight-man team of senior managers called together four weeks before he took control and set seriously to work on the day he moved offices in May. Their proposals were ready by the end of September and approved by the board in early October.

All were promoted, and several put in charge of the projects they proposed – a tactic which seems to appeal to Dormann's sense of humour. "They have to live up to their ideas... I told them at the beginning I was not asking them to come in, prepare an analysis and then go off again like other consultants."

Further down the line, he admits, "it's hard to convince people that they have to get more business- and market-oriented, that they have a bottom-line responsibility, and that they will be paid based on the goals we agree on."

But he insists there has been little resistance to change. Indeed, the works and middle management appear to be suffused with a sense of relief – if not excitement – that the old order has been swept away so comprehensively. "Even though there are a lot of familiar faces still in the top management, there is a feeling that they have seriously changed their way of looking at and doing things," says one senior manager.

Part of the relief stems from a conviction that it is now inconceivable that the management is capable of repeating the blunders accompanying last year's series of accidents at the group's main site near Frankfurt, when Hoechst's response – dismissiveness, followed by panic – showed it as disorganised, defensive and arrogant.

Dormann is none of these. An industrialist with political skills, he can be engagingly informal but visibly weighs his words before speaking. "We are not hiding any longer," he says. "The main message is that we want to manage our activities based on long-term goals and vision."

Much of the propaganda drive is addressed to German environmental concerns, he acknowledges. It is one of the few areas in which he is prepared to say that domestic issues play a strong part in strategic thinking. Perhaps this is not surprising, given that the company has built its last large-scale chemicals plant in Germany. There is more than enough capacity; the issue is one of managing a reduction in size.

Dormann is not afraid to move capacity and even headquarters functions out of the country. The fibres division, one of four core business areas he has identified, is now being run from the US with an American in charge. "It's not a question of passports or nationalities; it's a question of competence, markets, technology and creativity," he says.

For example, the logical sites for manufacturing chemicals for use in the electronics industry are in Japan rather than Germany, he says.

Top priority is now overseas growth: in north America, eastern Europe – above all, in Asia. Just returned from a visit to China, Dormann knew "that 1.2bn people live there. But seeing it makes the difference. My God, what a lot of tasks we face. We are negotiating four or five joint ventures in the industrial gas business. We might be a little late, but China is such a huge market."

In the US, he would like to add maybe two or three mid-sized pharmaceuticals acquisitions to the existing north American drugs operations – recently bolstered by a minority stake in Copley Pharmaceutical, which specialises in generic products. Since Hoechst took the stake, Copley has been hit by a series of problems including the recall of faulty products.

Perhaps surprisingly, Dormann admits that he is not altogether clear what has happened. But then it may be the sort of admission which an "enabling" executive chairman must be prepared to make, especially in the early stages, if he is properly committed to delegation. "It's our job here to see the links [between our companies]. We try to involve our divisional people in strategy discussion but not in the details of cost-cutting," he says. The new corporate formation will, he hopes, act as an early warning system.

But the changes go far deeper than structure, he says. "We have changed the mood."

NAMES IN THE NEWS

Questrom's US shopping trip completed

It looks as though Allen Questrom, chairman and chief executive of Federated Department Stores, has finally done it, writes Richard Tomkins. Today, barring last-minute obstacles, the US department store chain will complete its takeover of the rival R.H. Macy retailing group, and Questrom will become the department store king of the US.

His empire will embrace 347 department stores trading under some of the best known names in US retailing. Federated's 11 chains will include Bloomingdale's, Macy's, A&S, Bon Marché and Burdines. Questrom will be chairman and chief executive of a group with annual revenues of $13.5bn.

For Questrom, 54, it will be the crowning moment of his career. A native of Massachusetts, he joined Federated as a trainee at A&S after graduating from Boston University, and quickly rose to the position of merchandise manager.

By January 1988, he had become vice chairman of Federated itself – but four months later he stormed out to join the Neiman-Marcus department store group when Federated was taken over by Canadian financier Robert Campeau.

As it turned out, his absence was only temporary. When Campeau drove Federated into bankruptcy in 1990, Questrom was wooed back to pull the company out of its troubles. Then, just as he had turned Federated round, R.H. Macy found itself going into bankruptcy, and Questrom started making overtures.

Federated eventually won control of R.H. Macy by buying some of its debt from another creditor, so securing a powerful say in the company's future. Now Questrom faces the formidable task of showing that he can make the merger work. Many a successful executive has come unstuck on less; but most US retailers would say that if anyone can do it, Questrom can.

Dream time for Montgomery

When Michael Montgomery ended his eight-year career with Walt Disney by resigning as finance director of Euro Disney, its troubled French subsidiary, the last thing on his mind was to take another job in entertainment, writes Alice Rawsthorn.

Now, four months later, he is back in the same business after joining forces with the "dream team" – Jeffrey Katzenberg, former head of Disney's movie studios, Steven Spielberg, director of *Jurassic Park* and *Schindler's List*, and David Geffen, the billionaire music mogul – in their attempt to launch a new entertainment group.

"It was not what I expected to do," says Montgomery, 40, whose top priority in his new job will be to raise capital. "But this was an opportunity I couldn't resist. It's one of the most exciting new ventures that anyone could dream of."

Katzenberg was the architect of his appointment. The two had worked together on film-financing projects at Disney where Montgomery was assistant treasurer from 1986 to 1991 and then treasurer until he moved to Euro Disney in 1993.

He will be working closely with Katzenberg and with Ronald Nelson, former finance director of the Paramount entertainment group. Yet Montgomery insists that there will be no conflict of interest between his role and Nelson's. "There is so much work to do here – plenty for everyone. Besides, I can't think of a nicer guy to work with."

After four months of self-indulgence – "doing all the things I haven't had time for in 15 years, like taking my son to school and improving my golf" – he is now preparing for a more rigorous regime at the temporary offices in Los Angeles.

Rigorous it may be, but raising capital for the star-studded team and Geffen sounds much more enjoyable than struggling to salvage Euro Disney. "It'll be hard work," he says. "But I can't think of any job which will be more fun."

Musical chairs – Swiss style

In Japan, the transfer of ageing bureaucrats to the private sector is so common that there is a term for it, *amakudari*, descent from heaven, writes Ian Rodger. In Switzerland, it is less frequent, but it is becoming fashionable among diplomats, for whom there is less call than in cold war days when the services of a trustworthy neutral country were in great demand.

Last week, Erwin Schurtenberger, 55, the current ambassador to China, jumped to Ciba-Geigy as head of the pharmaceuticals and chemicals group's year-old Chinese subsidiary. Schurtenberger follows the example set by David de Pury, the country's former official responsible for world trade matters, who moved to ABB Asea Brown Boveri in 1991; he is now co-chairman.

Bernhard Stettler, former counsellor at the Swiss mission to the Council of Europe in Strasbourg, has become spokesman for Swiss Bank Corporation, and Philippe Lévy, a former trade official with ambassador status, who ran the Basle International Fair for a few years until last December, has now become an adviser to the Geneva-based international inspection and product testing group, Société Générale de Surveillance.

Switzerland has no tradition of a reverse movement so eyebrows have been raised over the nomination of Ueli Sigg, 48, a former executive and member of one of the controlling families of the Schindler elevators group, as Schurtenberger's successor in Peking.

But at least Sigg has undisputed qualifications for the job. In 1980, on behalf of Schindler, he negotiated the first ever joint venture in China for a western company.

Old diplomatic hands are less amused by the appointment of Gret Haller, speaker of the lower house of the federal parliament, as ambassador to the council of Europe in Strasbourg. They call her derisively a "*quer einsteiger*", someone who climbs aboard crosswise.

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New-age Britannica gets foot in the door

Martin Mulligan explains how the encyclopaedia company is meeting the challenge of new technologies

He is etched in urban legend: the smiling yet implacable doorstep salesman of encyclopaedias. You might think him a member of a threatened profession, trading on borrowed time in an increasingly high-tech, information-rich world. But you would be mistaken. If the leaders in the field are to be trusted, the future of the doorstep encyclopaedia salesman is assured. In fact, his prospects have never seemed more alluring.

Which is strange. After all, aren't books themselves said to be living on borrowed time, perhaps already superseded by CD-Rom, interactive and multimedia products?

Joseph J Esposito, north American president of Encyclopaedia Britannica, sees things differently.

At ease in his book-lined office, a short walk beyond the stone lions that guard Chicago's Art Institute, Esposito describes himself as "an English professor manqué". He combines a keen sense of mission with an eye for what is really happening in the global information market.

A self-confessed bookaholic, Esposito quotes T S Eliot and Voltaire in the same breath as he outlines the cyclical pattern of sales since Encyclopaedia Britannica, now in its 15th edition, was founded by three Scots in Edinburgh in 1768.

His mission is that of self-appointed protector of particular values. "As long as the Enlightenment spirit exists in the world, there will be a Britannica," he declares. Stuffy he is not.

Today's Britannica comes in four "flavours". There is the printed version we all know and love, Britannica CD-Rom, and, most recently, Britannica Online, in a local area network version and a World Wide Web version. The latter two are available at present only to universities and colleges (the first UK institutions have bought licences very recently).

Britannica is making big efforts to enable libraries, schools, companies and home users to gain access to its World Wide Web version. It does not know how quickly that is likely to happen, but even within Chicago's bastion of enlightenment, the Internet is seen as holding the most exciting possibilities. Today's flood of information, Esposito argues, has made Britannica, in all its forms, more valuable than ever. An environment in which the questions have multiplied is tremendous news for a man in the business of giving answers.

But the issues run much deeper. More than ever before, knowledge is endangered by wave upon wave of information. A knowledgeable person is now one who understands just how much of this information can be ignored.

What that person needs is a versatile, navigable, intellectual ark to carry the inquiring mind from place to place on the back of the flood. And the various versions of Britannica are just such arks.

As Esposito has said: "What is essential for the future of knowledge is filters and classifiers, information tools that cut out the noise and give us pieces of the universe in knowable units."

All well and good. But how does that square with the 32-volume, hand-tooled, leather-bound *monolith* on the bookshelf – that alternative universe of print and colour plates in which an imaginative child could lose itself for hours. Has that special experience gone for ever, replaced for today's and subsequent generations by CD-Rom or on-line versions of Britannica?

Perhaps not. Globally there is little hard evidence that sales of electronic products are at the expense of book sales. There may even be a small positive impact on book sales. Britannica's experience to date tends to support this. Its traditional printed version still comes in seven different bindings – to match room decorations.

"Most people buy the CD-Rom and print versions together, making up fully 40 per cent of our sales. Virtually no-one is buying CD-Rom without the print version," says Esposito.

It may be, after all, that print and electronic media do not have to fight each other. Against all expectations, they may be able to enjoy a symbiotic relationship.

CD-Rom is an "interim technology", according to Esposito and his colleagues. But nobody can say how long the interim will last. The single-disc Britannica CD contains a dictionary, a thesaurus, and the 65,000 articles and 44m words of the traditional Britannica. But they are the right words, as distinct from mere information.

Britannica CD is described as fully interactive but not multimedia. It is claimed to be the most interactive encyclopaedia going, because it has the "best search engine on the market".

A typical encyclopaedia contains 7m to 10m words. At 44m, Britannica is thus the big boy on the block. Its competitors in print include Collier, Grolier and World Books, but it says that its market share in print in the last few years has grown. Esposito nominates Grolier and Microsoft as its most successful electronic competitors.

Its strategy has been to invest in continually updating its database and developing powerful search-and-retrieval functions, rather than adding the random snippets of sound and video that characterise most CD-Rom encyclopaedias. Esposito admits that only 10 per cent of the print version's illustrations have translated into the CD-Rom format.

Could it be that Britannica's interest in CD-Rom is fuelled by the gnawing suspicion that many of its prospective younger readers are losing themselves in the branching networks of, say, Compton's Interactive Encyclopedia, a screen-based "reading experience" which is perhaps as memorable and exciting for today's school-age children as their parents' first encounter with the traditional Britannica?

Esposito praises the competition, then quietly observes that "it is probably unfortunate that Britannica and its competitors share the name of encyclopaedia."

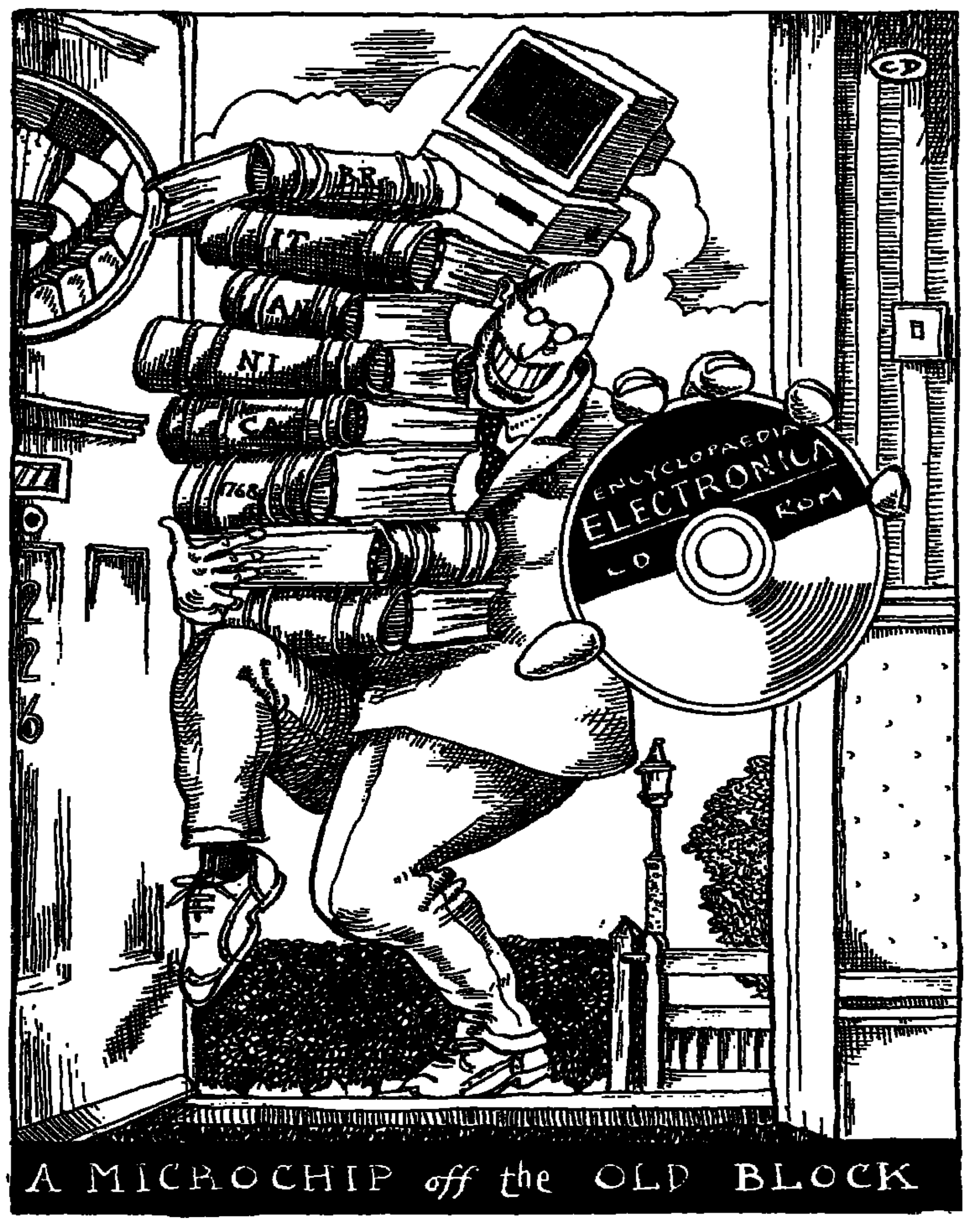
It is a harsh fact of life that quality publishers tend to lose money. Is Britannica defying that trend? Esposito does not evade the question, but his reply is carefully constructed. Britannica is owned by the William Benton Foundation, a non-profit corporation in Illinois, founded by the former senator which supports the University of Chicago.

"Historically," says Esposito, "we are in a very cyclical business, and this has been true of [our] US sales for the entire century. We felt the 1991 recession. In terms of total company revenue, lately international has been greater than domestic. But the economy has begun to turn, and there is a great sense of optimism." He is aware that "complacency kills companies, and the future does not necessarily belong to us", but takes heart from the fact that "the more affluent consumer market is showing a preference for our product."

But what of Britannica Online, the jewel in the crown if the word of information scientists is to be accepted? How does it differ from the printed Britannica? Esposito reckons that "a truly electronic encyclopaedia will no more resemble a print encyclopaedia than a horseless carriage resembles a horse."

Britannica Online certainly offers a hint of what that might mean. In addition to the 44m-word database, it carries celebrated articles from past editions, new articles not included in the printed Britannica, essential graphics and illustrations, and – crucially – references to other Internet resources that can be easily accessed by clicking on an icon.

That last feature is pivotal. By clicking on "hotlinks" within articles, users can access, for example, the Soviet Archives Exhibition provided by the Library of Congress or the Art and Culture of Mexico exhibition at the University of Guadalajara. Here is a real hint of how an Internet encyclopaedia may soon form a gateway to the world's knowledge.



Rapid growth for voicemail

By Alan Cane

Love it or loath it, voicemail, the business equivalent of the domestic telephone answering machine, is here to stay.

According to Dataquest, the marketing consultancy, the UK market alone for voicemail and voicemail products was worth $163.1m in 1993, a growth rate of approximately 55 per cent in one year.

A recent survey carried out for Octel Communications, a designer and manufacturer of voicemail products, suggests that some 38 per cent of the UK's larger companies now have voice processing systems installed, with manufacturing industry the most enthusiastic.

Financial services companies, however, seem the most satisfied, with almost three-quarters of those surveyed reporting improved customer service.

Management, however, tended to be unenthusiastic about voicemail until after installation. "Initial resistance," the survey said, "seems to be linked with a sense that the company may be losing its human face." Indeed, a major disadvantage detected was that some staff hide behind voicemail either to avoid answering calls or to camouflage absence.

The principal errors that management makes in installing new technology – failure to train staff adequately, or to measure response – were very evident in voicemail. Michael Persky, Octel's marketing director, said: "Only 59 per cent of companies installing voicemail make training for users compulsory. This should be 100 per cent if organisations are to maximise their investment."

Can it be only a matter of time before European companies follow the lead of their US contemporaries and appoint "voicemail police" to check that colleagues are changing their greetings regularly and listening to their mail?

**Getting the Message: trends in Voice Processing, £25 from Firefly Communications, 071-381 4505.*

Businesses warned over lax security on Internet

How secure is the network? **Stephen McGookin** reports

When General Electric of the US admitted recently that computer hackers had gained access to sensitive company material via the Internet, it raised fears among businesses about the confidentiality of their dealings on the rapidly-expanding worldwide computer network.

"Many people believe the Internet offers them all the security of a royal telephone call," says Gerry O'Neill of Britain's National Computing Centre in Manchester, speaking ironically.

He estimates that around 60 per cent of all traffic on the Internet is of commercial origin, based on message exchanges using the *.co* suffix, which identifies business users. "Security practices which are required for an internal network with a few thousand users simply do not guarantee secure links to an Internet community of 35m people," he says.

The responsibility rests with companies to establish their security properly. But there are indications that some of the 25,000 or so companies worldwide thought to be using the Internet commercially may not be taking security as seriously as the risks warrant, or that they do not regard their data as particularly sensitive.

A survey in the US last month by Ernst & Young and *Information Week* magazine quizzed more than 1,250 various-sized companies. More than half admitted suffering some kind of loss due to computer security problems, but 34 per cent of respondents said their senior management saw information security as only somewhat important, and 8 per cent – around 100 companies – said the issue was viewed as not important at all.

Dr Brian Neale, a UK-based specialist on Internet security with US computer company Digital Equipment, points out that once a system's security has been breached, its advantages are lost to legitimate users until the problem is solved. Even if the loss is only for a few hours, the cost can be high. GE's system was off the Net for about a week.

"The scramble among businesses not to be left behind by the Internet revolution has meant that the normally high security standards found among large IT users are not mirrored in their policies towards the Internet," Dr Neale says. He estimates that three-quarters of large firms currently using, or intending to use, the Internet fall into this category and are under-protected, making them "dangerous drivers on the information superhighway". In a study called *Secure Connections to the Internet*, Neale outlines the need for effective security procedures – known as firewalls. In effect, these are "gateway" computers which distinguish authorised access from unauthorised. "The aim of the Digital firewall is to allow employees to gain access to Internet services in as near-transparent fashion as possible, while preventing access of unauthorised external users," he says.

Britain's Department of Trade and Industry has a permanent team working on policy for IT security. With several leading companies, including BT, Unilever, Midland Bank and Nationwide Building Society, the team has produced a code of practice advising information security managers how to establish and develop a secure information strategy.

But a big part of the security problem as it specifically relates to the Internet is that there is no visible regulator or any overall authority that formally polices those who use the system.

Fundamental legal requirements are laid down by the 1984 Data Protection Act, one of the principles of which states that "appropriate security measures shall be taken against unauthorised access to or alteration, disclosure or destruction of personal data and against accidental loss or destruction of personal data."

While the 1990 Computer Misuse Act does not impose any statutory requirements on businesses, its aim is to deter unauthorised access to, and modification of, information held on computers.

It created three offences: acting with intent to gain unauthorised access to programs or data held on computer; unauthorised access with intent to commit or facilitate commission of more serious offences; and unauthorised modification of the contents of a computer.

The DTI believes companies should promote awareness of these offences as part of their computer security policies, in addition to taking steps to reduce the risk of offences being perpetrated on their computer systems.

As became clear from the GE breach, even the existence of sophisticated firewalls does not deter dedicated hackers. What is obvious, however, is that as the nature of on-line commerce evolves, companies will be forced to reassess their computer security provisions almost continually.

● Dr Brian Neale, who is author of the report *Secure Connections to the Internet*, can be contacted at brian.neale@sbp.mts.dec.com or through the Digital company liaison: shani.morris@reo.mts.dec.com

Demos calls for regulator for communications

By Alan Cane

A new regulator – OfCom – responsible for all telecommunications and broadcasting networks is one of the core proposals in a newly-published analysis of the social and political implications of information technology. It comes from Demos, a radical think-tank, whose advisory council includes John Ashworth, director of the London School of Economics, and Martin Taylor, chief executive of Barclays Bank.

Its views are expressed in a series of articles published both on paper and on the Internet. Geoff Mulgan, its director, says in an introductory essay that regulatory structures in UK communications have become too complex, and that the regulation of networks should be consolidated into an Office of Communications: "The core of OfCom should take the form of a commission, with open recruitment and hearings before a select committee on the membership and chair," he writes.

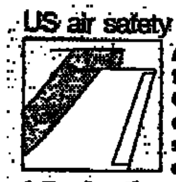
Its primary goal should be the achievement of satisfaction, or welfare, among the public, he says, with competition as a means, not an end. He advocates a separate regulator responsible for taste and content in the cinema, press, television and video worlds.

Martin Cave, professor of economics at Brunel University and a special adviser to Britain's existing telecommunications regulator, raises questions in a further essay about the way a combined regulator might operate: "The key lies in the recognition that communication services involve a series of stages, beginning with creation of the message, in some cases involving a bundling or wholesale function and culminating in delivery to final consumers. The regulator should seek to examine the degree of dominance at any stage in the process, and in the case of bottlenecks for essential facilities, mandate access, institute price control arrangements or take alternative actions."

Liberation Technology, £5, from Demos, 9 Bridewell Place, London EC4 6AP.

BUSINESS TRAVEL

US air safety



Air travel in the US over Christmas could be severely disrupted following the grounding of dozens of commerical flights because of a crackdown on commuter airline safety standards. At the weekend American Eagle suspended all commuter operations to mid-west cities for the second time in less than a week, and Kiwi International Airlines suspended all services.

Crashes have given US aviation its worst safety record in six years, with the pall over the commuter airline industry deepened by two American Eagle crashes in five weeks that killed 83 people. The result is that some travellers have been scrambling for rental cars rather than short-hop flights.

Prompted by last week's crash of an American Eagle UK-built Jetstream Super 31 (a two-engined turbo-prop), US transportation secretary Federico Peña said that commuter airlines in the US faced more safety inspections and their crews would get more rest under new safety rules.

He said American Eagle has been observing the safety standards required for larger aircraft, but that the authorities would start an immediate safety audit of every US carrier, large or small. In addition, commuter airline safety standards would be elevated to match those of regular airlines.

Peña set a 100-day deadline for this to be achieved. "We are very troubled by the number of accidents we've had this year," he said.

An American Eagle spokesman said the company had complete confidence in the type of aircraft it uses.

Florence terminal

Florence inaugurated its new Amerigo Vespucci air terminal, named after the Florentine explorer, on Saturday, *writes Andrew Hill in Milan.*

The opening raised the competitive stakes with Pisa's airport which, though 90km away, is the traditional arrival point for Florence's tourists because of its long runway.

Florence airport is already served by small jets operated from the UK, France and Germany by carriers including Meridiana, UK Air and Lufthansa. It claims to be the third largest airport in Italy, judged by number of destinations served by scheduled airlines.

Chinese road accidents

Business visitors to China may ponder its death and accident rates for road travel. More than 6,000 people were killed on the roads in China last month, the National Public Transportation Security Department said. This was a rise of 10.1 per cent on November last year, the department added in a report carried by the Xinhua news agency yesterday.

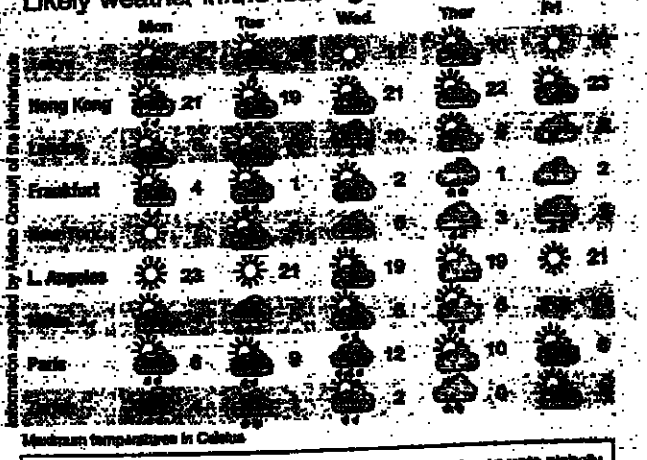
Road accidents rose 3.7 per cent to 23,496; 12,480 people were injured, up 2.8 per cent.

Peace dividend

Royal Jordanian Airline says it hopes peace with Israel will produce a surge of traffic next year to restore its financial health. The airline is expecting to record a loss this year, says Nader Dahabi, its president, though he hopes that Middle East peace-making will help boost revenues after years of decline.

He said that Royal Jordanian was co-operating with Israel's El Al to "share a new market on commercial lines which will be beneficial for the two sides". The peace process held out hopes of more traffic, especially from north America and Europe, Dehabi said. A draft Jordanian-Israeli civil aviation treaty will be signed soon.

Likely weather in the leading business centres



Maximum temperatures in Celsius

The pick of the Parisian 'palaces'

Nicholas Haslam offers a guide to the benefits – and expense – of staying in the top hotels

Parisians modestly call their best hotels "palaces", but then argue furiously over which ones merit the title. Yet no one seems to doubt that the Plaza Athénée, the King George V, the Crillon and the Ritz are in line for first place.

Sited in the exclusive central 1st and 8th *arrondissements*, and the briefest of limousine rides from La Défense business and commercial district, these hotels cater for those whose pockets – or expense accounts – are deep.

Rooms at the Plaza start at FFr2,300 (£280), while a presidential suite costs FFr9,440. For this, however, you will receive some of the best service any hotel can offer, and join a guest list that reads like an international *Who's Who.*

A few Metro stops from the Champs Elysées, the Grand Hotel Intercontinental looms beside the Opera in the heart of the Grand Boulevard district. With 514 rooms, the Grand is two stops from La Défense on the express rail RER, and has one of the largest conference rooms in the centre of Paris. Sixty per cent of guests are business people. A single room costs FFr1,600, but low-season reductions of up to 25 per cent are available.

Do not count, however, on hanging on to your savings: partners waiting for spouses to return from interminable business meetings can go shopping at Galeries Lafayette across the road, where guests from the Grand get a 10 per cent discount.

> **People say in Paris that if you work on the Right Bank, you play on the Left**

If you want to lunch outside the hotel, the area is full of excellent little restaurants. The Petit Gaillon in Rue Gaillon, just by the Opera, has excellent French and Senegalese food, and the Chartier at 7 Faubourg Montmartre offers reasonable food amid the decor of a 19th century brasserie.

People say in Paris that if you work on the Right Bank, you play on the Left. For those not tied to full schedules at La Défense, many hotels on the Left Bank have a particular character and charm.

The Lutétia on Boulevard Raspail has one of the best art deco facades in Paris. It is close to the Senate and the Sorbonne, and many guests are diplomats, politicians and academics.

The hotel has 280 rooms and 12 conference rooms, the largest of which can hold up to 500 people. Rooms start from FFr950, while a two-bedroom apartment costs FFr6,000. The Brasserie Lutétia fronting the hotel is a well-known rendezvous. (While sipping a beer and watching the crowds go by, it is best not to think of the Lutétia's guests half a century ago, when the hotel served as Gestapo HQ.)

Not far from the Lutétia, next to the Gallimard publishing house, is Hotel Montalembert. Reopened in 1991 after a year-long restoration, the hotel oozes Left Bank literary chic. An oak-panelled library opens off the main foyer, and the hotel numbers Carlos Fuentes and William Boyd among its guests.

The 51 rooms and five suites are individually furnished in a mixture of traditional and modern French design, and start at FFr1,625. There are two conference rooms, the largest with a capacity for 25.

At the back of the Montalembert, on Rue de l'Université and Rue Jacob respectively, are two smaller hotels patronised by fashion buyers, journalists, artists and musicians.

The Lenox has 30 designer-furnished rooms, and those on the top floor have views across lead-covered roof tops to the Louvre across the Seine. A double room costs FFr590 and a duplex apartment FFr960.

La Villa, 100 metres down the road, has 32 rooms and a jazz club with an international reputation in the basement. The management stresses that the club is well insulated from the rooms above, which start at FFr800 (suites FFr1,950).

Women business travellers alone in Paris should note that the Left Bank is one of the city's most secure areas, night and day. And non-French speakers should get a copy of Pariscope, a weekly magazine with a section in English that lists everything, from theatres to flea markets.

Plaza Athénée, *25 Avenue Montaigne, 75008 Paris, tel: (1) 47 23 78 33, fax: (1) 47 20 20 70.* George V, *31 Avenue George V, 75008 Paris, tel: (1) 47 23 54 00, fax: (1) 47 20 40 00.* Ritz, *15 Place Vendôme, 75001 Paris, tel: (1) 42 60 38 30, fax: (1) 42 60 23 71.* Crillon, *10 Place de la Concorde, 75008 Paris, tel: (1) 44 71 15 00, fax: (1) 44 71 15 02.* Grand Intercontinental, *2 Rue Scribe, 75009 Paris, tel: (1) 40 07 32 32, fax: (1) 42 66 12 51.* Lutétia, *45 Boulevard Raspail, 75279 Paris, tel: (1) 49 54 46 46, fax: (1) 49 54 46 00.* Montalembert, *3 Rue de Montalembert, 75007 Paris, tel: (1) 45 48 68 11, fax: (1) 42 22 38 19.* Lenox, *9 Rue de l'Université, 75007 Paris, tel: (1) 42 96 10 95, fax: (1) 42 61 52 83.* La Villa, *29 Rue Jacob, 75006 Paris, tel: (1) 43 26 60 00, fax: (1) 46 34 63 63.*

An hour to spare: Paris

The glories of the Khmers

You are in Paris, with an hour between meetings. What to do?

The suburb of Passy seems a long way from Phnom Penh. But here, safely preserved in the Musée Guimet, is the greatest collection of Khmer sculpture outside Cambodia – and one of the least trumpeted art treasures of Paris.

The Musée Guimet holds a kind of cultural litmus paper up to France's far eastern colonial past, but its glories are the outstanding Khmer carvings, displayed in just three ground-floor galleries.

The Khmers seem to have originated in southern India and to have imported and adapted their native religion and culture, establishing themselves during the ninth century as the dominant power in Indo-China for half a millennium. Their legacy is a complex of temples encompassing five centuries and some 75 square miles.

While Angkor Wat, the funerary monument, holds its head high beside the great Gothic cathedrals of northern Europe, the sculpture of Chartres pales beside the bas-reliefs and free-standing sculpture of Angkor.

An exquisite red sandstone lintel from Banteay Srei, carved with scenes from *The Ramayana*, illustrates the vigour and originality of the Khmer artists, even in the 10th century. A glorious horse-headed deity is a version of Vishnu, the stone of his torso and head polished to a satin silvery grey. All around, benign deities cast enchanting enigmatic smiles and voluptuous *asparas* (dancing girls) leap gracefully in bas-relief.

Theatrically spotlit in an inner sanctum is the sculpture in the style of the Bayon, the temple built by Jayavarman VII (1181-1201). Jayavarman, a late convert to Buddhism, believed himself the Buddha incarnate, and his image smiles down from the victory gateway and the 54 peaks of the bayon. The Guimet has a head of this serene god-king. It is a work of enormous subtlety and beauty.

If you have time for nothing else, this is the place to stop.

● *Musée Guimet, 6 Place d'Iéna, Paris*

Susan Moore

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Aquarius Plus Sec. FRN 2000 \$252.78
Bank Scotland 2.13p
Ebara 7.2% Bd. '98 Y720000.0
Flash Ser. Theta Sec. FRN '99 Y739375.0
Gaz Met. 10⅞% Db. Dec.'95 C\$108.75
Gen. Motors Acc.(UK) 10⅝% Nts. Dec.'95 £106.25
Gieves 0.5p
Gold Int. Fin. B FRN '02 Y777291.0
Hankyu 5.85% Bd. '02 Y585000.0
Do. FRN 1996 Y67618.0
Japan Air. 5.5% Bd. '99 Y550000.0
Do. 5.7% Bd. '02 Y570000.0
Do. 8⅛% Gtd. Bd. '96 \$406.25
Kansai Elect. Power 8¾% Nts.'96 C\$87.50
Mercury Asset Mngmnt 4.5p
NEC 5.7% Bd.'02 Y570000.0
Overseas Inv. Tst. 2.45p
Prudential Fdg. 8¼% Nts. Dec.'95 C\$82.50
Sanwa Australia Fin. Gtd. Fltg/Fxd. Rate '02 \$2767.92
Sino-Thai Eng. 1¾% Cv. Bd. '03 \$17.50
Smart (J) 6.2p
Sumitomo Chem. 5.6% Bd. '99 Y560000.0
Sumitomo Realty FRN '96 Y65090.0
Warburg (SG) 6p
Woolwich Bldg. Scty. 11⅝% Sb. Nts. '01 £581.25
YTB Fin. (Aruba) Gtd. Sb. Fltg/Fxd Rate '02 \$7200.0
Yasuda Tst. Asia Pac. Fltg/Fxd Rate Nts. '02 \$2869.03
Yasuda Tst. (Lux.) Fltg. Rate Gtd. Nts. 2000 \$133.34

■ **TOMORROW**
Burmah Castrol (Jersey) 9½% Cv. Bd. '06 £47.50
Chamberlin & Hill 2.25p
Coventry Bldg. Scty. FRN '97 £151.15
DFS Furniture 4.9p
Enron \$0.20
Essex & Suffolk Water 10½% Db. 94/96 £5.25
Do. 3½% Perp. Db. £1.75
Do. 4% Perp. Db. £2.0
Do. 5% Perp. Db. £2.50
First Ireland Inv. 0.25p
Five Oaks Invs. 0.3p
Italian Int. Bank Sb. FRN '96 \$260.52
Mount Charlotte 10¾% 1st Mtg. Db. '14 £5.375
PowerGen 5p

■ **WEDNESDAY**
DECEMBER 21
Alcan Aluminium \$0.075
Chester Water 1.95p
Dickie (James) 2.5p
Edinburgh Inca Tst. 0.04p
Essex & Suffolk Water A 40.8p
Do. N/Vtg. B 40.8p
Hercules \$0.56
Royal Bank Can. Fd. Ptg. Pf. C\$0.025
Saracen Value Tst. 0.6p
Sketchley 1p
South African Brew. R0.47
Unilever FL1.48
Woolwich Bldg. Scty. FRN '99 £151.15
Yokohama Fin. Cayman Gtd. Sb. FRN '05 Y677222.0

■ **THURSDAY**
DECEMBER 22
Broadcastle 0.5p
Fleming Chinese Inv. Tst. 0.5p
GR (Hldgs) 0.7p
Halliburton \$0.25
Havelock Europa 1p
Lasmo 10⅜% Db. 2009 £5.1875
Marine Mid. Banks FRN '09 \$134.29
Mercury Keystone Inv. Tst. 10.5p
Mitsui UK Step-up Nts. '97 Y250000.0
Nationwide Bldg. Scty. Sb. FRN 2000 £170.47
Do. Sb. FRN 2004 £157.38
Newcastle Bldg. Scty. 10¾% Perm Int. Brg. £53.75
SGW Fin. Gtd. FRN '98 £15.30
Standard Chart. Und. Prim. Cap. FRN £76.35
Unilever 6.51p

■ **FRIDAY**
DECEMBER 23
Aircraft Lease Port. Sec. A2 FRN Jun.'97 \$294.83
Anglo American Coal R1.80
Bank fur Arbeit Sb. FRN '99 \$266.88
Break for the Border 0.33p
Broadgate Inv. Tst. 1.6p
Coats Viyella 4.375p
Cobham 4.2% 2nd Cm. Pf. 2.1p
Devenish (JA) 10¼% Db. '17 £5.125
Hambros 4.5p
Do. N/Vtg. 2.1p
Italy (Rep of) FRN 2000 \$250.99
Leeds Perm. Bldg. Scty. Sb. Var. Rate Nts. £163.15
Lex Service 6½% Pf. 2.275p
Marine Midland Bk FRN '96 \$132.71
Midland Bank Und. Fltg. Rate Cap. \$266.88
Skipton Bldg. Scty. Sb. FRN 2000 £31899.66
Woolwich Bldg. Scty. 9¾% Fxd/Fltg. Rate Nts. '95 £28.43

■ **SATURDAY**
DECEMBER 24
Manchester 3% Rd. Cons. 75p
Do. 4% Cons. Irrd. £2.0

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Benchmark Grp., Institute of Chartered Accountants, Moorgate Place, E.C., 12.00
Ivory & Sime Enterprise Capital, 1, Charlotte Square, Edinburgh, 12.30
McKechnie, Savoy Hotel, Strand, W.C., 3.00
UK Estates, 19-21, Spring Gardens, Manchester 11.00
BOARD MEETINGS:
Finals:
Aberdeen Tst.
Burndene Invs.
Care UK
Interims:
Brasway
East Midlands Electric
Edinburgh Japan Tst.
Equity Consort Inv. Tst.
Ewart
Ivory & Sime

■ **TOMORROW**
COMPANY MEETINGS:
F & C Eurotrust, Exchange House, Primrose Street, E.C., 12.15
Scottish Value Tst., Caledonian Hotel, Edinburgh, 12.00
Unigroup, 61, Doughty Street, W.C., 3.00
BOARD MEETINGS:
Finals:
Eurotherm
Interims:
Forminster
Learmonth & Burchett
Schroder Split Fd.
Wessex Water

■ **WEDNESDAY**
DECEMBER 21
COMPANY MEETINGS:
F & C Emerging Markets Inv. Tst., Exchange House, Primrose Street, E.C., 12.15
North American Gas Inv. Tst., Chartered Accountants Hall, Moorgate Place, E.C., 12.00
Queens Moat Houses, Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W., 11.30
Trace Computers, 224-232, St. John Street, E.C., 2.30
BOARD MEETINGS:
Interims:
British Thornton
Dunton
M & G Second Dual Tst.
Stewart & Wight
Victoria Carpet

■ **THURSDAY**
DECEMBER 22
COMPANY MEETINGS:
Bailey (CH), Alexandra Docks, Newport, Gwent, 11.30
British Assets Tst., Caledonian Hotel, Princes Street, Edinburgh, 11.30
Waverley Mining Finance, 13, Charlotte Square, Edinburgh, 2.30
BOARD MEETINGS:
Finals:
Minstergate
Sperati (CA)
Interims:
Jones & Shipman

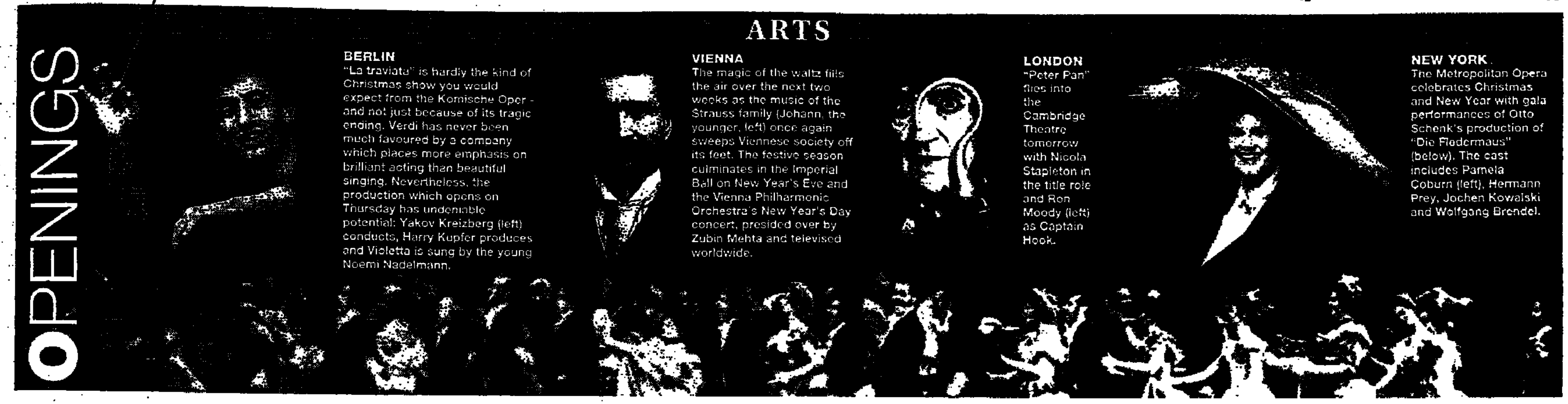
■ **FRIDAY**
DECEMBER 23
BOARD MEETINGS:
Interims:
Danae Inv. Tst.
Electric & General Inv. Tst.
Farringford

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

هكذا من الاصل

ARTS

OPENINGS



BERLIN
"La traviata" is hardly the kind of Christmas show you would expect from the Komische Oper - and not just because of its tragic ending. Verdi has never been much favoured by a company which places more emphasis on brilliant acting than beautiful singing. Nevertheless, the production which opens on Thursday has undeniable potential: Yakov Kreizberg (left) conducts, Harry Kupfer produces and Violetta is sung by the young Noemi Nadelmann.

VIENNA
The magic of the waltz fills the air over the next two weeks as the music of the Strauss family (Johann, the younger, left) once again sweeps Viennese society off its feet. The festive season culminates in the Imperial Ball on New Year's Eve and the Vienna Philharmonic Orchestra's New Year's Day concert, presided over by Zubin Mehta and televised worldwide.

LONDON
"Peter Pan" flies into the Cambridge Theatre tomorrow with Nicola Stapleton in the title role and Ron Moody (left) as Captain Hook.

NEW YORK
The Metropolitan Opera celebrates Christmas and New Year with gala performances of Otto Schenk's production of "Die Fledermaus" (below). The cast includes Pamela Coburn (left), Hermann Prey, Jochen Kowalski and Wolfgang Brendel.

'Method' married to madness

Nigel Andrews talks to Rod Steiger, who returns to the cinema after ten years in the wilderness

What do you do if an unexploded bomb is lying about in your movie? Do you defuse or detonate it? Or do you just rejoice that it is there? *The Specialist*, opening on Boxing Day, is a Sylvester Stallone thriller full of fake explosions and dummy showdowns: but it has one genuine exposed bomb in its cast. The name is Rod Steiger. The 69-year-old Jewish-Irish actor is back: ex-Oscar winner for *In The Heat Of The Night*, ex-sparring partner to the great (Brando in *On The Waterfront*) and for decades the most articulate spokesman for the postwar era's best-known acting tradition. The Method.

In *The Specialist* Steiger, marrying madness to Method, careers about the screen with a gun and Cuban accent as if he had never been away. But for ten years he was away, in a private hell of near-clinical depression. It was caused in part by a faltering career and bad role choices. I met him recently in Hollywood. Yachting cap on head, face round as a Gouda, voice primed for that raspy singsong, he talked for two hours about acting; with a passion and breadth I have never met in any other practitioner.

Steiger accepts that he is no longer first choice for top character roles in modern Hollywood. "Every time I see something I like," he snarls, "I run into Sean Connery or Gene Hackman." But he is still mildly shocked when he encounters executives who demand an interview before casting him.

"They've never heard of me. Some of your executives today are 30 years old, what the hell do they remember of me? You just have to go in and swallow your pride. I figure if Brando could do a screen test for *Godfather* – smartest move he ever made – I can do auditions too."

False pride he has given up. He vanished into his black hole, compounded of drink, divorce pains and career depression, soon after making what he thinks was his worst ever career judgment: turning down the lead role in *Patton*.

"I woke up one morning and I was young and vibrant and alive and my philosophies were strong, and I said I'm a pacifist! I'll have nothing to do with this man. Biggest mistake of my life. If I'd been successful in that part, and it won George C. Scott an Oscar, I might even have had a shot at the Godfather."

Instead the Steiger glory days are the 1950s and '60s, when in the era before Hoffman or De Niro he was a one-man phenomenon: a character actor with the power and presence to push into stardom.

Steiger thinks he never pushed quite that far. "I was never a leading man. I missed that one pre-requisite for real stardom, I never was what they call a 'sex symbol'. If you don't get the female following of a tribe, you don't get that big as an actor. Brando had it. James Dean. Nicholson even has it – the attractiveness of evil."

So he settled for the rollercoasting life of a high-exposure character player. There was joy here, from "the freedom of being other people". And there was fear too: the energising anxiety that comes from ever-changing challenges on stage and screen.

"Fear motivates an actor," says Steiger. "'I'm gonna try to be good in this part,' you say, and you don't care who is watching, you *have* to entertain them. If I was in a room with just an automatic camera, and lighting, and no human beings, and there was just the studio cat, I'd worry about how the cat was reacting. Or a cockroach. 'Did the cockroach look at me? Did I entertain him?'

"But there's a price to pay for living with the childhood romantic dream of having adventure and challenge. After a while you don't have so many 'highs', because you don't get employed that quickly any more. And then you watch out because boredom comes in and you're looking frantically for something to give that *fear* again, because you misinterpret that fear as being alive."

Glamour, not terror, lured him into acting. "I came from a neighbourhood in Newark, New Jersey, where if you put the garbage out and helped with the dishes your mother gave you fifteen cents and you went to the movies on Saturday afternoon and watched the golden people."

Steiger's voice rises and stretches on that "g-o-l-d-e-n." He knows, even off camera, where the oomph should come in a sentence. When he joined the golden people himself, enrolling in the Actors Studio, then going on stage and TV to hew his reputation as a powerhouse Everyman, Steiger became famous for pushing and pulling his scripts. Not just accents and emphases but whole words and phrases.

"What are sentences?," he says. "They're prismatic particles, flying out from the centre of a thought. And you catch the flashing of their individual light and you understand that sentence. So you fool around with it a little, so long as you keep the meaning."

He and Brando did so in the famous taxi scene in *On The Waterfront* ("I coulda been a contender, Charlie"). The scene was born, recalls Steiger, from an accumulation of happy mishaps.

"We spent eleven hours shooting. The producer Sam Spiegel had promised us back-projection. When Kazan the director arrived, there was no street footage to project behind the cab's window!

"Well, a crew member said he'd come in that day in a taxi with venetian blinds. So Kazan used that. And we were in that tight space – half a mock-up cab – and Kazan brought the camera right in on our faces. We played that scene, and played with it, till it came right."

Waterfront was a watershed in postwar acting: the vindication of the Method in popular cinema. Did Steiger sense this at the time?

"You never know you're doing a revolution," he says. "If you do, you're a pain in the ass. You cannot make love and criticise your performance at the same time.

"Let me tell you about the 'Method.' The word was invented by journalists to describe the ideas that Lee Strasberg and Stella Adler brought back from a visit to Russia. In the old style of acting you used conjecture to force an emotion in from outside. With the Method the actor uses involvement to discover the emotions in himself.

"So you find something in your own life. If somebody tells me my daughter's died, I cry." Tears come into Steiger's eyes on cue. (His daughter and only child is the opera singer Anna Steiger.) "But I'm afraid of using that too much, in case I use it up. Another time, I'll use something like I did in *The Big Knife*. I had to get angry in one scene, so I looked at the set and I had just seen – this was after the war – photos of Auschwitz and Treblinka. So I said to myself, 'These people *built* this place!' And that did it for me." Steiger exploded on cue. Look at the movie today and take shelter.

But the Method has room for more lightweight techniques too. "The famous American actress Shirley Booth was rehearsing a scene on stage where she puts provisions she's bought into the fridge. And the director said, 'Shirley darling! We can't take this long!' So she came in again and did the scene in a *fifth* of the time, without hurrying. He asked how she did it. 'Oh I have a taxi outside with the meter running,' she said."

Occasionally the actor finds he has no techniques at all to hand. For *The Pawnbroker* Steiger had to "invent" a moment while the camera was running. "For the scene where I put my hand down on the spindle and the spike goes through, I had done a lot of rehearsal at home. But midway through the shot I thought to myself, 'You son of a bitch. You forgot to practice taking the hand *off*!' So I couldn't embarrass myself by stopping the camera. I just remembered what I did whenever I panicked, which was to hold my breath, and I took a deep lungful of air and then – phooh! – let it out."

Steiger's greatest early roles were plain men yanked into extremity. But in the late 1960s his career took a startling turn. He began behaving like a one-man Madame Tussauds. Pope John XXIII, Mussolini, Rasputin, W.C. Fields. Real historical figures, topped off by Napoleon in *Waterloo*.

"Oh that's a high!" he rhapsodises. "If I could live for one tenth of a second at the exciting level of a great moment in history, because I somehow made myself believe it was happening to me, why not go for it?"

So he bookwormed through the reference tomes. He had Napoleon's autopsy translated into English; he discovered that the man was riddled with diseases and drugs; he invented a scenario for the Waterloo defeat. "I believe on the night before the battle he bombed himself out on laudanum."

The only thing Steiger refused to do was put his arm inside his coat. Not even for a publicity shot.

"What's a cliché? It's a given truth that's repeated so often that it becomes a bore, a joke. What makes a king or an emperor isn't gestures or royal vowel sounds – 'Men of Fraahnce!' The man may stammer; he may have a high lisping voice. What makes a king is that when he says he is thirsty, *fifty* people come bringing water!"

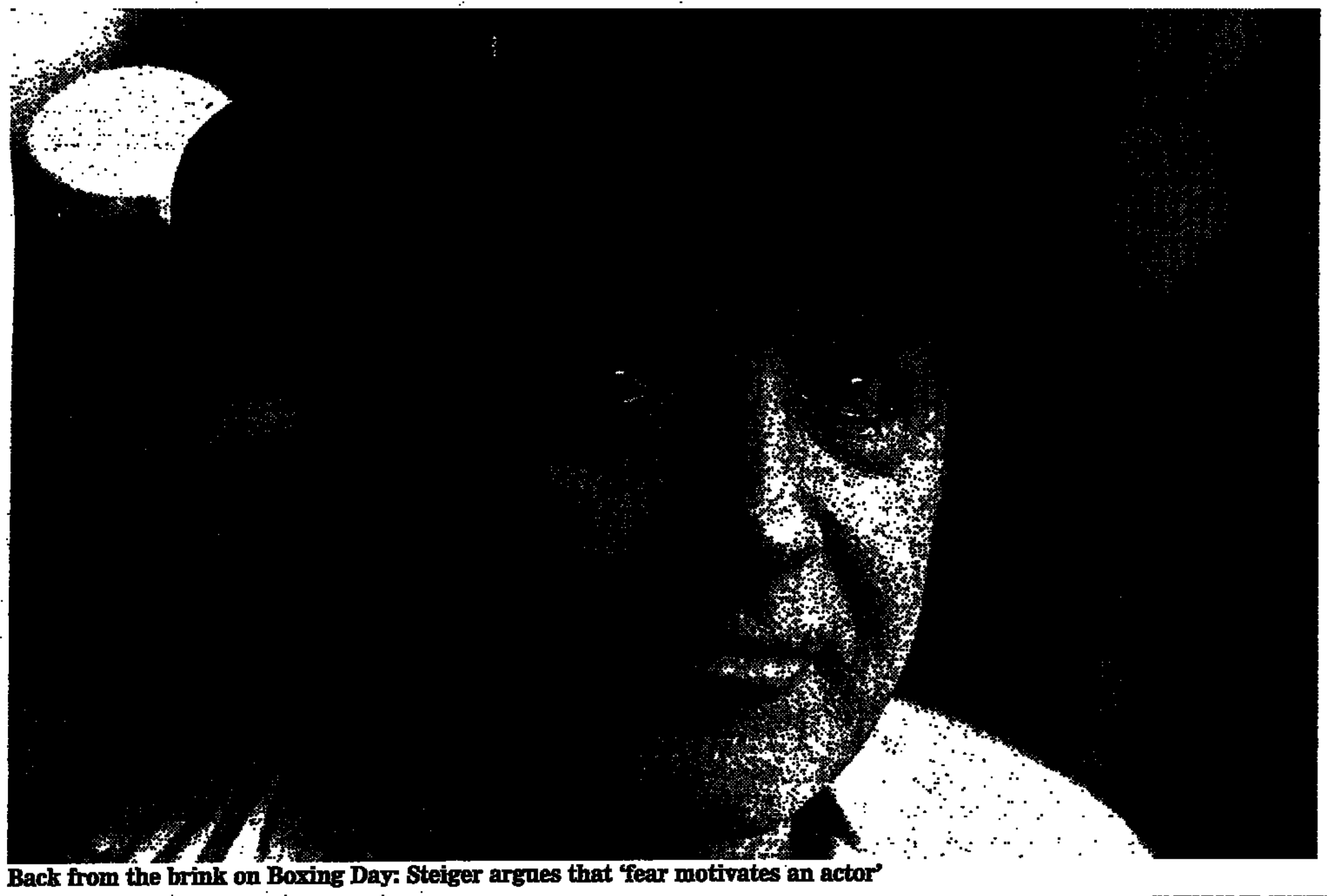
And what makes an actor, I ask; knowing the clock is ticking towards a football match Steiger wants to watch on television.

"We're all of us actors. We act all day long. We act when we say no and we mean yes. We act when we say yes and we mean no. We act trying to seduce a woman. Acting belongs to everyone on earth.

"Why do we do it professionally? People ask me that. You put yourself under the microscope of the world; there must be something wrong with you. Well, I know why I do it." (pause) "Because I want respect." (Hint of red again in the eyes). "For me. For my family."

He lets the words sink into the silence.

"And now get out. (goodhumouredly). I'm turning the TV on! Goodbye!"



Back from the brink on Boxing Day: Steiger argues that 'fear motivates an actor'

Theatre

Sleeping Beauty

A good pantomine, like a good Christmas dinner, is a tricky thing to pull off. First you have your list of ingredients: good dame, hissable baddie, plenty of slapstick, running gags, a songsheet, a chase sequence, a fight, songs, plenty of glitter, a sprinkling of topicality, a pinch of blue (optional) and a pinch of camp (not optional), and those little plums that have to pop out – "he's behind you", "oh yes you will".

Then you must mix your ingredients well, in the certain knowledge that if one thing is missing, it will be the one thing that everybody notices. Even then, when everything is compiled, it might not work out: a little overcooked, a little undercooked, and the whole thing misfires.

The Theatre Royal, Stratford East usually serves up an excellent panto. Sad to relate, then, that *The Sleeping Beauty*, this year's offering, seems rather underdone. Most of the ingredients are there, and David Cregan's script treads that difficult line between providing a proper story for the children and working in the traditional pantomine elements. The audience participation is beautifully managed in Philip Hedley's production; there is some nice topicality – the King and Queen are 1990s parents ("but what will people say if I don't bring her up myself," wails the Queen, as a nanny is hired for the baby Beauty) – and the show is governed by an enjoyable dame in the shape of Michael Bertenshaw as a stout, stern, hatchet-faced nursemaid.

But the struggle between good and evil is underplayed: the trio of fairy godmothers is not very funny and the evil fairy appears too seldom to get the hissing up to full steam. The characterisation is a bit vague: the Queen and the King are both silly ninnies, while the Archbishop and Crispin, Princess Rose's little playmate, have no characters at all to speak of. The songs are rather wishy-washy – with the exception of "Don't Be Brave", an excellent little number rubbishing fairytale heroics – and there are a couple of scenes that should have been left off the list of ingredients altogether: a dream sequence and an overlong preamble for the second act. Take those away, add a bit more spice, slapstick and sheer sillyness, and the show might reach its comic potential.

We all know where the proof of the pudding lies, of course, and, to be fair, the children in the audience enjoyed it. But I departed feeling rather undernourished; frustrating, since this is a theatre that you so often leave fascinated, with your sides aching from over-indulgence.

Sarah Hemming

At Theatre Royal, Stratford East to January 28 (081-534-0310).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Phillipe Herreweghe: with the Freiberger Barockorchestra and the Collegium Vocale Gent conducts Bach at 8.15 pm; Dec 20, 22

BERLIN

CONCERTS
Philharmonie Tel: (030) 2548 8132
● Berlin Philharmonic Orchestra: conducted by Sir Yehudi Menuhin, with soloist Leonid Gorokhov, plays Mozart, Tchaikovsky and Schubert at 8 pm; Dec 19, 20, 21, 30, 31 (5.15 pm)
OPERA/BALLET
Deutsche Oper Tel: (030) 3 41 92 49
● Siegfried: by Wagner. Conductor Horst Stein, production by Götz Friedrich at 5.30 pm; Dec 27
Staatsoper Unter den Linden Tel: (030) 2 00 4762
● Die Zauberflöte: by Mozart. Conductor Daniel Berenboim, production by August Everding at 7 pm; Dec 20, 23, 25, 28; Jan 1
● Dornröschen: by Tchaikovsky. Conducted by Stolze, choreographed by Nureyev at 7 pm; Dec 26, 27

FRANKFURT

GALLERIES
Schirn Kunsthalle Tel: (069) 29 98 82 11
● Asger Jorn - Retrospective: 167 works by the Danish painter. The fifth chapter in a series of presentations of postwar European artists.; to Feb 12

LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● LSO New Year Viennese Concerts: conducted by John Georgiadis, the music of Strauss in this traditional celebration of the New Year at 7.30 pm; Dec 31; Jan 1, 2
● Royal Philharmonic Orchestra: Christmas concert with conductor Owain Arwel Hughes at 7.30 pm; Dec 20, 26
Festival Hall Tel: (071) 928 8800
● Johann Strauss Gala: the Johann Strauss Orchestra with director John Bradbury, soprano Marilyn Hill-Smith and the Johan Strauss Dancers plays a programme of music by Strauss. First performance at 3.15 pm, then at 7.30 pm; Jan 1
OPERA/BALLET
Festival Hall Tel: (071) 928 8800
● The Nutcracker: by Tchaikovsky. English National Ballet and its Orchestra choreographed by Ben Stevenson at 7.30 pm; from Dec 21 to Jan 2 (Not Sun)
Royal Opera House Tel: 071 340 4000
● Cinderella: music by Prokofiev. Created by Fredrick Ashton in 1948, this was the first full-length ballet by an English choreographer at 7.30 pm; Dec 23 (2 pm), 26 (2 pm), 27, 30, 31
● La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at 7.30 pm; Dec 19
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 20 (2 pm), 21, 22, 28
THEATRE
Barbican Tel: (071) 638 8891
● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec., otherwise at 7.15 pm; to Dec 29 (Not Sun)
National, Lyttelton Tel: (071) 928 2252
● Out of a House Walked a Man: by Daniil Kharms. A Royal National Theatre and Theatre de Complicite co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 23, 26, 27
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Dec 19, 28, 29 (2.15 pm), 30, 31 (2.15 pm); Jan 2
Queen Elizabeth Hall Tel: (071) 928 8800
● Cinderella: by Rossini. The Music Theatre London present this new translation by conductor and musical arranger Tony Britten, and director Nicholas Broadhurst at 7.15 pm; from Dec 27 to Jan 3 (Not Sun)
● Rossini's Cinderella: new translation by conductor Tony Britten and director Nicolas Broadhurst at 7.15 pm; Jan 2 (2.15 pm)
Royal Court Tel: (071) 730 1745/ 2554
● The Libertine: by Stephen Jeffreys, directed by Max Stafford-Clark. Comedy based on the works of the 2nd Earl of Rochester at 7.30 pm; to Feb 4

NEW YORK

GALLERIES
Whitney Museum
● Franz Kline: Black and White 1950-61: major Abstract Expressionist works from the last decade of the artist's life; to Mar 12
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Die Fledermaus: by J. Strauss. Sung in German with English dialogue at 8 pm; Dec 22, 29, 31
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 20, 24 (1.30 pm)
● L' Elisir d' Amore: by Donizetti. Produced by John Copely, conducted by Edoardo Müller at 8 pm; Jan 2
● Madama Butterfly: by Puccini at 8 pm; Dec 21, 27, 30
● Peter Grimes: by Britten. English at 8 pm; Dec 19, 23, 28, 31
New York State Theater Tel: (212) 870 5570
● The Nutcracker: by Tchaikovsky, performed by the NY City Ballet. Tue-Thu 6pm. Fri 8 pm. Ring for other times and matinees; to Dec 31 (Not Mon)
THEATRE
Manhattan Theatre Club Tel: (212) 581 1212
● Love! Valour! Compassion!: latest play by Terence McNally (of Kiss of the Spiderwoman fame), directed by Joe Mantello. Sun. performance at 7pm otherwise at 8 pm; to Jan 1 (Not Mon)

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● Poussin: 400th anniversary retrospective; to Jan 2
Louvre Tel: (1) 42 60 39 26
● British Art in French Public Collections: paintings by Gainsborough, Reynolds, Constable, Lawrence and Turner. Closed Tue.; to Dec 19
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● La Fontaine de Bakchisarai: ballet by the Kirov company, St. Petersberg at 8.30 pm; Dec 20, 21
● Nutcracker: Tchaikovsky's ballet performed by the Kirov ballet company, St. Petersberg at 8.30 pm; Dec 22, 23, 25, 26, 27, 28, 29, 30, 31
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Le Lac des Cygnes: by Tchaikovsky. Choreographed and produced by Rudolf Nureyev. Conducted by Vello Pähn/Ermanno Florio at 7.30 pm; to Dec 31 (Not Sun)

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Teatro Dell' Opera Tel: (06) 481601
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Samuel Brittan

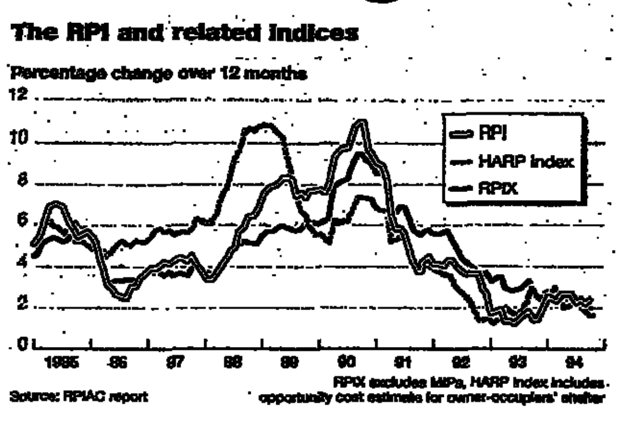
How to miss on the inflation target

Last Thursday, another unnoticed official report* was published, that of the Retail Prices Index Advisory Committee (on which I sit) on the treatment of owner-occupier housing costs. Because of the government's short-sighted policy of restricting copies of such documents, most journalists have seen only the press release. This covered merely the majority report which favoured continuing to measure homeowners' costs in the RPI by mortgage interest payments, but with a slight modification to include an element of home depreciation which makes hardly any difference.

The origins of the report, over which the committee toiled for 2½ years, was Whitehall's concern that using mortgage interest payments to measure home ownership costs had a perverse effect on public perceptions of inflation, the conduct of economic policy and the success of that policy.

The mechanism by which we shoot ourselves in the foot is straightforward. When governments worry about inflation, they sanction interest rate increases which feed back into the RPI. The result is worsening inflationary expectations, reduced confidence and attempts at wage and price push by unions and employers. This leads to still greater inflationary worries, still more interest rate increases and still worse inflationary expectations. The vicious circle can be, and has been, broken by sufficiently determined policy, but at an unnecessarily high cost in lost output and employment.

The committee majority believed that the job of the RPI was not merely to measure inflation but to provide an automatic adjustment for incomes, for instance in pay and benefits. In fact, the idea that everyone can contract out of the effects of a credit squeeze is sheer illusion, which simply postpones adjustments and makes their timing perverse.



Source: RPIAC report

RPIX excludes MIPs, HARP index includes opportunity cost estimate for owner-occupiers' shelter

As the committee sat, Whitehall seemed to get cold feet about reforming the RPI. Once it became clear that there was no one clear alternative measure of inflation, only a battery of indicators, some officials took fright lest negotiators should always go for the highest variant. But the need for such a battery is just a fact of life. The phoney inflation peak of nearly 9 per cent in 1990, when the economy was already entering recession and which did so much damage, was due not only to mortgage interest rates, but also to poll tax effects and the impact of a temporary oil price explosion before the Gulf war.

I am, however, inured to governments losing interest in their own original standpoint and I persevered with a minority report.

The root of the problem is that the previous method of estimating homeowners' costs by means of the equivalent rent for similar accommodation has not been available since the collapse of the market in private letting. There is no one perfect alternative and my own proposals are designed to entrench and build on what has already been achieved in interpreting the RPI.

To start with: *the underlying rate, or RPIX, should now be given equal prominence to the headline RPI in official pronouncements. As a consequence, the headline RPI should cease to be the sole legal definition of the index.* This is, in any case, the way the world is going. Price indices being developed by the European Commission are certain to exclude home ownership costs as being too difficult to measure and compare between EU members.

While the committee was going round in circles, the Bank of England had developed further indices to help measure inflation. These include RPIY, which excludes some indirect taxes as well as mortgage interest payments. There is also the housing adjusted index, HARP, which attempts to treat the purchase of houses like that of any other consumer durable. *My recommendation is that the Bank of England should update every month the indicators in its quarterly Inflation Report and indeed publish them independently.* The Bank could do this straightaway. But *the CSO (Central Statistics Office), too, should get round to publishing a wider list of indicators attached to the RPI press notice, including the new comprehensive Inflation Index on which it is working.*

My final recommendation may be the most controversial. This is that *the RPI Advisory Committee is an anachronism which should be placed into honourable retirement.* Apart from it being a corporatist survival, there is the basic fact that a price index cannot be devised by a varying selection from a group of 21 people sitting round a table every few weeks. The director of the CSO should have the same responsibility for the RPI that he has for other statistical series.

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Swelling hubbub over Heathrow

Michael Skapinker analyses the debate over plans for a fifth terminal at the UK airport

Mr Des Wilson, veteran campaigner for worthy causes, will this morning brave the ire of environmentalists by presenting the case for a fifth terminal at London's Heathrow airport.

Mr Wilson, who earlier this year became public affairs director of BAA, the airports group that owns Heathrow, will be backing up Sir John Egan, BAA's chief executive, and Sir Richard Rogers, the architect of the proposed £900m terminal. They will unveil at a press conference the detailed submission they intend to make to what is expected to be one of the biggest public inquiries in the south-east of England.

The Department of the Environment says it has already received 5,000 letters about the proposed terminal, 95 per cent of which are hostile. As many as 3,000 of the objectors intend to address the inquiry when it starts next May.

The Airports Policy Consortium, representing 30 south of England local authorities of all political persuasions, will argue that the terminal should not be built. The objectors argue that Heathrow, which already handles 51m passengers a year, cannot grow any further without inflicting serious damage on the communities that live around it. The fifth terminal would increase the airport's capacity to 80m.

Mr Dermot Cox, a committee member of the Heathrow Association for the Control of Airport Noise, a pressure group, says: "Terminal Five sounds like just another terminal. It isn't. It's a whole new airport."

Given the strength of feeling against the proposed terminal, BAA's recruitment of the New Zealand-born Mr Wilson is a significant coup. The former campaign director of the UK Liberal Democrats founded Shelter, which champions the homeless, led the Campaign for Lead-Free Air, chaired the UK branch of the Friends of the Earth and is the author of books such as *Pressure, the A to Z of Campaigning in Britain.*

He says he is entirely comfortable in his new role. "Very few major projects involve as little environmental impact as this one," he says.

The terminal will be built on land mostly occupied by a sludge works between Heathrow's two main runways. Access to the terminal will be via a new station connected to the London Underground network, the proposed Heathrow Express rail link and a spur road from the M25 motorway.

The M25 will not have to be widened to accommodate the additional traffic, BAA says. With new rail links, it adds, 45 per cent of travellers to and from Heathrow will use public transport by 2016, compared with 36 per cent today.

BAA insists that there will be no increase in night flights if the new terminal is built. Nor will the group need to build a third runway to handle the increased air traffic. With a rise in the average number of passengers per aircraft, BAA says Heathrow's two existing runways can handle the increase in flights expected in future years.

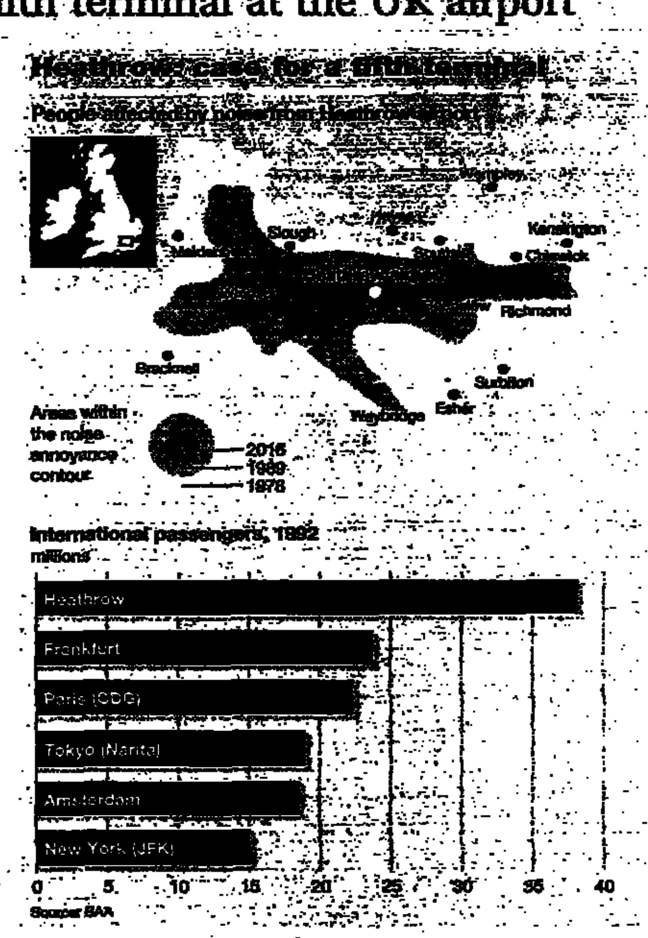
The company says it needs the terminal to maintain Heathrow's position as the world's leading international airport, which in turn underpins London's position as one of the most important financial and business centres.

BAA expects passenger demand at Heathrow to grow by 3-4 per cent a year for the foreseeable future. If Heathrow fails to accommodate this growing demand, ambitious airports such as Frankfurt, Charles de Gaulle in Paris and Amsterdam's Schiphol will do so instead.

The Airports Policy Consortium rejects these arguments. Miss Frances Rudd, its planning officer, says: "With or without Terminal Five, Heathrow is still the world's leading international airport. I remain unconvinced that if Heathrow doesn't get Terminal Five, London will decline."

Instead of trying to accommodate ever-increasing demand on the congested west side of London, the consortium believes BAA should be promoting development to the east of the capital, which, it argues, is in line with government policy for regenerating the East Thames corridor.

The consortium says that, instead of building Terminal Five, BAA should promote the development of Stansted airport in Essex, which has good rail links to the City of London. In contrast to the bustle at Heathrow, Stansted appears eerily empty, with only 3.2m passengers a year.



Source: BAA

For the anti-noise campaign, Mr Cox, a market researcher who has lived near Heathrow since he was a child, says that he does not see how the airport can operate the fifth terminal without a third runway.

The existing runways are already heavily utilised. According to Mr Cox, BAA's argument that it can handle the additional traffic using just two runways appears to be based on a firm conviction that larger aircraft will be built over the next few years. "Their case is that we are going to have these super Jumbos taking 600 or 800 people. But they don't exist. People are talking about it, but it is still very hazy," he says.

Mr Cox says that, even with the current level of aircraft traffic, life is difficult for those who live near Heathrow. He concedes that people who choose to live near an international airport must expect a certain amount of noise, but he argues that they should not have to suffer being woken at 4am by overhead flights.

Mr Cox says walks in Kew Gardens, a favourite haunt of his, are ruined by the sound of aircraft. "Kew Gardens advertises itself as a haven of peace and tranquillity. If I wasn't a friend of Kew Gardens, I would refer them to the Advertising Standards Authority," he says.

Mr Wilson counters that making greater use of Stansted or London's Gatwick airport would not reduce the need for Terminal Five. Even if Stansted and Gatwick were used to full capacity, there would still be excess demand from airlines wanting to fly into London.

In any event, Mr Wilson argues, 30 per cent of Heathrow's passengers use the airport to change to other aircraft. If these transfer passengers were denied the use of Heathrow, many would not use Stansted. They would change flights in Paris, Frankfurt or Amsterdam, he says.

However hard BAA markets Stansted or Gatwick, international air passengers insist on using Heathrow. "Heathrow has a choice of airlines, flights and destinations unmatched anywhere in the world. We are simply reflecting what the industry wants," he says.

BAA also rejects the view that new, large aircraft are essential if Terminal Five is to operate without a third runway. Aircraft using Heathrow currently carry an average of 126 passengers each and use the two runways to 82 per cent of their capacity. If by 2016, with Terminal Five built, the two runways are used to 92 per cent of their capacity, aircraft will have to carry 177 passengers per aircraft. A Boeing 747-400 already carries 400.

BAA says that the number of Heathrow neighbourhoods affected by noise has been falling, because newer aircraft are quieter. In 1978, 1.5m people were affected by high levels of noise. Today, the figure is 500,000. By 2016, the figure will fall to 225,000 if Terminal Five is not built, and 293,000 if it is.

Today Mr Wilson will present an opinion poll showing that over half the residents near Heathrow support Terminal Five and that they are more worried by traffic, litter and crime than by aircraft noise. He says: "We will show that 73 per cent of people within a 5-mile radius of Heathrow haven't been woken once by aircraft noise in the past year."

The anti-Terminal Five campaigners will no doubt point out that BAA's figures mean that more than one in four people living near Heathrow *have* been woken by low-flying aircraft over the past year.

Mr Wilson accepts that BAA's opponents have genuine concerns. In the end, however, the government will have to make a choice based on the interests of the UK and London, he says. "It's a test of whether this country is capable of taking long-term decisions or whether short-term responses to a minority will prevail."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Favourable tax regime

From Mr Torlach Denihan.

Sir, Your article, "Boost for Dublin's tax haven" (December 8), reporting the decision of the European Commission to extend the marketing deadline for Dublin's International Financial Services Centre, refers to the centre as a "tax haven".

Such pejorative language is totally inappropriate. The rate of corporation tax on the profits of companies in the International Financial Services Centre is 10 per cent exactly, the same rate applicable to the profits of manufacturing companies in Ireland.

Some 220,000 people are employed in manufacturing industry in Ireland, of whom some 90,000 are employees of foreign-owned industrial enterprises. These companies are attracted by a favourable corporation tax regime and the European Union's youngest and best educated workforce. The same features attract companies to the centre.

Your correspondent should be aware that the European Commission is not in the business of approving tax havens and that its decision vindicates how the centre has evolved over the past seven years.

Torlach Denihan,
director,
Financial Services Industry Association,
34-36 Lower Baggot Street,
Dublin 2, Ireland

The right person to lead WTO

From Mr Harry L Freeman.

Sir, Your leader concerning choice of a leader for the World Trade Organisation (December 14) is right on the mark. As important as the agreements reached in the Uruguay Round are to the future of world trade, so is the choice of the first leader of the WTO and the launch of this new entity. For those of us who worked on the round for years, it would be frustrating to see all of the efforts made to reach a broad and strong agreement frustrated by a poor leadership choice and/or an unproductive confrontation over the nature of the WTO at its outset.

You make a very critical point in how governments should make their choices as to the WTO head – namely, that each candidate should be judged (among other important criteria) on his ability to draw support beyond his natural constituency. Thus, your point that Mr Renato Ruggiero – Italian former trade minister and the EU's official candidate – should be judged, among other criteria, on his support from such areas as Latin America and Asia. His support now is largely from the EU and countries closely tied to it. Similarly, it would follow that Mr Carlos Salinas, former Mexican president, must draw significant support from countries outside the western hemisphere; and that Mr Kim Chul-su, South Korea trade minister, should be more than an Asian candidate.

Your approach is meritorious and should help select a candidate based on ability. My own favourite, Mr Salinas, I would concede, must draw significant support from such areas as Africa, the Asian sub-continent and Australasia, rather than being solely a western hemisphere candidate. I believe he can do so as, at least in my judgment, the best candidate for this position at this time.

Harry L Freeman,
president,
The Freeman Company,
4708 Dorset Avenue,
Chevy Chase,
Maryland 20815, US

Motorway toll rationale

From Mr Andrew J Walker.

Sir, I agree that motorway tolls present a huge political problem for a government (Personal View, December 14), but comparisons with motorway tolls in France are invalid. Distances between French cities are such that switching to non-toll roads could lengthen journey times by many hours, if not days: in contrast, the use of motorways in principal French conurbations is free of tolls: on that same model, use of the M25 would remain free.

The French do have a viable alternative to motorways: the TGV, which is ideally suited to the long inter-city distances in France.

If the UK government were serious about the environment, it would use the money raised in motorway tolls, fuel taxes, etc, to invest directly in an advanced, *non-car* transport infrastructure designed to meet Britain's travel needs of the 21st century. Any other rationale for introducing motorway tolls would simply be another tax on people who need to get from A to B.

Andrew J Walker,
Mas de Massier,
38200 Vienne,
France

Perverse

From Ms Fiona Brown.

Sir, Would you buy an advertising campaign for your company from an advertising company which did not understand the value of a company name ("Saatchi chairman forced to quit by US shareholders", December 17)? In 20 years Saatchi has built an enviable worldwide profile attractive to both clients and investors. Anonymity would seem a rather perverse corporate move, but very attractive to the competition.

Fiona Brown,
Chatto, International House,
59 Compton Road, London N1

Unwise to lower ceiling of target range for UK prices

From Dr Peter Westaway.

Sir, Your editorial, "A new target for inflation" (December 13), suggested a number of modifications to the framework for monetary policy relating in particular to the inflation target. You rightly focus on the question of how to acquire the credibility for this target which, judging by prevailing interest rate expectations and most inflation forecasts, has not yet been fully achieved.

Since the RPIX inflation rate is currently higher than that of the RPIY, I cannot believe that a move to a target which is now easier to hit is likely to enhance credibility, although eventually a move to the RPIY definition may be sensible.

Given that many forecasts, including our own at the National Institute, would have inflation rising above 3 per cent in the next two years, it would seem unwise to advocate a lowering of the ceiling of the target range to 3 per cent.

Even if the central forecast for inflation were to remain below this level, we live in an uncertain world where discretion needs to be the better part of valour. The tighter the inflation target, the more likely it is that some unexpected occurrence may cause the target range to be violated. Or even for unacceptably high output costs to be paid to keep the target range intact. In such circumstances, the actual Treasury-Bank strategy of "talking down" inflation into the lower half of the range while maintaining the original range of 1-4 per cent may actually be rather prudent.

Importantly, as you emphasise, the question of any future administration's commitment to an inflation target has a crucial bearing on the long-term credibility of anti-inflationary policy and can even influence its current effectiveness. There now seems to be cross-party agreement on the role of monetary policy in achieving low inflation. One possible area of confusion may arise, however, with the Labour party's stated intention to a target for growth. If this means that monetary policy will be actively used to raise gross domestic product above its "natural level", then inflation can indeed be expected to be higher. Alternatively, if the growth target means that supply side policies will be adopted in an attempt to increase the long-run growth rate endogenously, to use a much maligned but ultimately rather important expression, then the effects on inflation are much less certain and may even be beneficial.

I echo your call for clarity on all sides.

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FINANCIAL TIMES
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Monday December 19 1994

Evading US fiscal reality

US politicians have spent the weeks since the congressional elections "learning the lessons" of the Republicans' victory. Most now believe they must promise the voters a dubious fiscal cocktail in the years ahead. The US is not the only country in which economic realities seem increasingly at odds with political ones. Few, however, can boast such a powerful consensus in favour of ignoring the first.

The post-November strategy which Mr Clinton finally unveiled last Thursday centres around middle-class tax cuts and departmental downsizing. He pledged to "be straight with the American people" about the real consequences of these budgetary decisions. On paper, at least, the plan does add up rather better than many of the competing proposals currently on offer on Capitol Hill. But none paints an honest picture of the economic realities facing the US in the short and medium term.

Mr Clinton offered tax cuts for "middle-income" households worth about $60bn over five years. He observed the post-November rules of the game by promising to offset these with cuts in discretionary government spending, rather than tampering with federal benefits to individuals ("entitlements") or raising other tax revenues. As many remarked, the speech echoed many a latter-day Republican theme as well as some of his 1992 election campaign. Characteristically, he aimed to please everyone and so, perhaps, pleased relatively few. Certainly there was little to prompt either Republicans or Democrats to forsake their more ambitious tax-cutting gambits when passing next year's budget.

Reform package

It is to Mr Clinton's credit that he merely echoed these proposals, many of which were on show last week, rather than trying to outbid them. But a more courageous president would have picked another model altogether for his efforts, namely the ambitious fiscal reform package put forward a few days earlier by Senators Robert Kerrey and John Danforth.

The Senators' plans are unique in admitting that neither tax cuts nor an unchanged system of entitlements is consistent with long-term US fiscal stability. The federal budget deficit will begin to rise again in 1996. Interest payments and social benefits will, on the basis of current commitments, consume nearly three-quarters of all federal revenues by 2003, and 100 per cent 10 years later. By 2030, total federal expenditures are projected to exceed 37 per cent of GDP, compared with just 22 per cent today. If policies remain unchanged, by then this year's modest $22bn surplus of Social Security tax revenues over outlays would have turned into an annual deficit of over $450bn. It should go without saying that this will not happen. The only question is when, and how, it will be stopped.

Small steps

Messrs Kerrey and Danforth proposed a few measures to stop the rot, such as gradually raising the retirement age from 65 to 70 and means-testing some benefits, fewer than a fifth of which go to poor households. Mr Clinton was not alone in finding these and other measures unthinkable. None of the other members of the commission on entitlement reform – chaired by Mr Kerrey – could stomach them either. It broke up agreeing on only the need for fundamental reform, and some minor, though useful, changes in the procedure for assessing the budget.

Mr Clinton's 1993 deficit reduction package included some very small steps towards lowering benefits for wealthy households. With the recovery entering a buoyant fifth year of recovery, the short-term case for further retrenchment is now even stronger. Meanwhile, the Republicans claim that their corporate and individual tax cuts would be accompanied by enough spending cuts to be consistent with further deficit reduction. Yet they hope to reverse even Mr Clinton's modest 1993 changes to entitlements.

The president was right on Thursday to admit, implicitly at least, that the budget would never be balanced without benefit changes at least as ambitious as the Kerrey-Danforth programme. He may also be right in thinking that endorsing the latter would be political suicide in the current US climate. In the long run, however, voters are unlikely to reward either Mr Clinton or Congress for suggesting that this type of reform could painlessly be deferred.

Tougher rules for pensions

How much more secure will members of the UK's occupational pension schemes be if the Pensions Bill, published last Friday, is enacted as proposed? That is the test, given the bill's origins in the report of the Goode Committee, which was set up in the immediate aftermath of the Maxwell pension scheme outrages.

Many of the Goode recommendations have been adopted. For instance, active scheme members will be entitled to appoint a third of the trustees; an Occupational Pensions Regulatory Authority, albeit of a rather passive kind, will be set up; and a new Pensions Compensation Board will be able to levy other schemes and compensate victims when a scheme fails to meet its liabilities due to misappropriation of assets and the bankruptcy of the employer.

But the minimum solvency requirement that formed an important part of the Goode proposals has been significantly watered down. Under pressure from companies, the valuation basis has been altered to permit a greater emphasis on the assumed higher returns on equities rather than government bonds, and more time will be allowed for schemes to correct solvency crises.

Moreover there is no sign yet that the government will issue the special indexed securities which the Goode Committee requested should be made available to schemes winding up, so that they could economically secure their future pensions liabilities.

Highlighted

The problems were highlighted by the receivership of shipbuilder Swan Hunter. Although this £60m scheme was regarded as solvent by its actuaries, and was sufficiently well-funded to have complied with the proposed minimum solvency requirement, the trustees announced in September that not all the pension benefits could be met, with some being reduced by as much as 40 per cent.

Essentially this kind of problem arises because smaller schemes cannot be run economically as closed funds when the employer goes bankrupt, or for other reasons decides not to continue the scheme. The assumed high long-term investment returns are replaced by much lower interest rates when liabilities are transferred to life assurance companies.

Some in the actuarial profession are worried that a so-called minimum solvency test will prove seriously misleading, and will imply a degree of security for future pension rights that in reality does not exist. It is also worth pointing out that Mirror Group pensioners would not have benefited from a compensation scheme of the type planned, because their employer continued to trade.

Serious deficiency

Other Maxwell companies did fail, of course, and their pensioners would have been able to claim. Fraud is not always as clear-cut as in the Maxwell example, however. Many cases of serious deficiency arise because of imprudent investment or a desire by the trustees to help the sponsoring company through a crisis by deferring contributions or even by buying assets such as property. The presence of member trustees with jobs at stake will not necessarily reduce these risks.

The question is whether the other measures, such as the imposition of a duty on auditors and actuaries to inform the regulator about apparent irregularities, will make an important difference. Certainly there are powerful threats of fines or imprisonment when trustees breach rules.

In many cases these provisions seem likely to be effective. No one can rule out the possibility of rogues misappropriating pension scheme assets in future, especially among smaller companies, but at least a safety net will exist for these serious abuses.

The bigger problem may well be whether the reasonable expectations of scheme members will be met when the sponsoring companies get into trouble. To insist on complete security would be to impose much higher funding costs on all companies with final salary-linked schemes, for the sake of the small proportion of future problem cases. But should not scheme members be made aware that they are carrying a residual risk?

The Pensions Bill represents a clear improvement over what has applied before. But there is a danger that it will generate an expectations gap that will haunt politicians in the future.

High-risk strategy in global game

Talks on China's application to rejoin Gatt are nearing a climax, write **Guy de Jonquières** and **Frances Williams**

One of the world's longest and tensest diplomatic poker games is nearing a climax. As negotiators on China's application to rejoin the General Agreement on Tariffs and Trade prepare to leave Geneva for the Christmas holidays at the end of this week, the time has come for bluffs to be called.

How the game is played out in the next few days may determine whether a formula can be found for China's orderly integration into the multilateral trade system – or whether Beijing carries out its repeated threats to walk away from the bargaining table and pursue go-it-alone economic policies.

Either way, the stakes are momentous. With a quarter of the world's population and one of its fastest growing economies, China is already a magnet to foreign exporters and investors. On recent trends, it may overtake the US to become the world's biggest economic powerhouse before the middle of the next century.

China's erratic pace of reform, often chaotic business conditions and continued adherence to many of the practices of a command economy will not be easy to align with multilateral trade rules and disciplines. The task threatens to impose serious strains on the Gatt and its successor, the World Trade Organisation, which will be established at the start of next year.

But it is widely accepted that keeping China out of the WTO would be even worse, and could turn the country into an international rogue elephant. Paraphrasing former US President Lyndon Johnson, one trade negotiator says: "The choice is between having China inside the tent spitting out, or outside spitting in."

Talks on the resumption of China's Gatt membership, which it unilaterally suspended after the communist revolution in 1949, have been under way sporadically for almost eight years. But Beijing has recently raised the stakes to new levels by setting a deadline for their completion.

Mr Long Yong-tu, China's chief negotiator, has told Gatt members that unless a "substantive" agreement is reached by the end of the year, his government will offer no further concessions and will not seek to restart talks. Indeed, he is reported to have said that Beijing might even start closing its market to western exporters.

The heightened sense of urgency has encouraged Mr Pierre-Louis Girard, chairman of the Gatt working party dealing with China's application, to order its members to pull out all the stops in an effort to have a formal accession protocol ready by the end of the year.

However, by all accounts the talks are still proceeding at a snail's pace, and most negotiators see little chance of a last-minute breakthrough.

"I've seen miracles happen in Geneva before," says one. "But I don't expect one this time. There is just so much work left to do."

If that forecast proves correct, Beijing will confront a dilemma. Though it has not totally ruled out an extension of talks into next year, saying it would be ready to discuss "technical" issues, it will be hard put to dress up results so far as the "substantive" deal in which it has invested so much political prestige.

What China would do then is anybody's guess. Some observers in Geneva fear it might succumb to pressure from hardliners to abandon the membership talks, on the grounds that foreign exporters and investors are so desperate to participate in the country's economy that it has nothing to lose.

Mr Booth Gardner, the US ambassador to Gatt, is more sanguine. "I don't think China's threat to pull out is a bluff," he says. "But as long as their negotiators can return to Beijing saying some progress is being made, they will stay in the game."

Mr Jeffrey Garten, US under-secretary of commerce for international trade, believes Beijing's economic self-interest will prevail over political pique. China's failure to enter the WTO, he argues, could damage international confidence in its economy and scare away much-needed foreign investment. "I am optimistic that in the end our differences will be worked out," he says.

But even if breakdown is averted, stubborn obstacles remain. It is also not clear that the protagonists in the talks will enjoy any increased room for manoeuvre.

China's negotiating position is widely thought to be constrained by a looming leadership struggle, which has caused even economic reformers to take a hard line. Some western observers say China's negotiators in Geneva recognise they must offer more concessions, but they have failed to win the authority to do so.

Beijing, in turn, blames the slow progress on unreasonable demands by Washington. The US, which has taken the lead in the negotiations, has said it wants China to join the WTO, but has made clear its determination to strike a hard bargain.

The Clinton administration is under strong domestic pressure to stick to its guns. After a humiliating retreat this year from its threat to deprive China's exports of Most Favoured Nation status over human rights, any further signs of weakness would provide powerful political ammunition to the new Republican-controlled Congress.

US business leaders argue strongly that the WTO accession talks are the last chance to exact trade concessions from China, after the Chinese failure to fulfil promises made in a bilateral memorandum of understanding on trade agreed with the US more than two years ago. US resolve has been further strengthened by a 27 per cent rise in its trade deficit with China to $21bn in the year to November.

Many other Gatt members – particularly *developing countries* – have in the past accused Washington of excessive obduracy. But recently, the tide of opinion has begun to turn, as a growing number of governments have started to find fault with Beijing.

One reason is China's demand that it join the WTO on terms more generous than those enjoyed by developing countries in the Gatt. As well as angering many developing countries, there are fears that meeting this demand could set an undesirable precedent for the membership negotiations under way with Russia and other former communist states.

Some industrialised countries would be ready to allow China to subscribe initially only to a set of core WTO obligations, and adopt the rest according to an agreed timetable, provided Beijing made reasonable bilateral offers on market access for their goods and services.

However, western negotiators say Beijing's offers to date have been niggardly, lacking in clarity and hedged with restrictions. For instance, it is said still to be balking at basic commitments on regulations governing imports and foreign exchange, and wants to limit foreign banking rights to about 20 cities.

So unyielding has Beijing's position been that some Gatt members are starting to wonder whether it really understands what is at stake in the negotiations. "We are like ships that pass in the night," says a western diplomat.

A negotiator from a developing country puts the point more bluntly: "China seems to think it is dealing with the United Nations, where everything consists of grand political posturing. It has yet to recognise that Gatt is all about negotiating on detailed, specific and concrete issues."

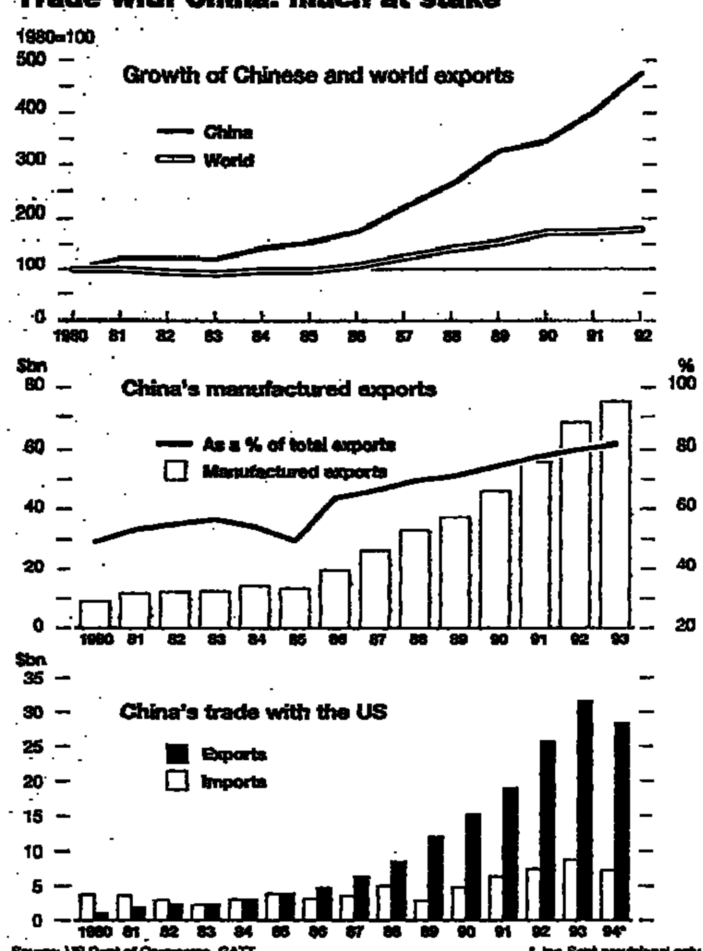
On this view, Beijing needs to undergo a fundamental change in psychology. But even if the talks continue beyond the end of this month, it has little time left to do so. Many Gatt members say that, in the absence of any breakthroughs, it would be impractical to drag them out beyond next summer.

However, they also admit privately that whatever progress is achieved, the final decision on China's admission to the WTO will come down to a political judgment. It will turn on an assessment of whether Beijing will live up to its commitments – or whether it will wreak havoc by blithely disregarding the rules.

That is a question to which nobody in Geneva pretends to know the answer. Even those who argue strongly that China's WTO admission is essential for global economic reasons admit that it is a high-risk strategy.

"The real nightmare," says one, "would be to have China inside the tent, spitting in."

Trade with China: much at stake



Source: US Dept of Commerce, GATT
* Jan-Sept provisional only

Why Bill signed Newt's contract

MICHAEL PROWSE on AMERICA

Nothing better illustrates the shift in political power in Washington than Bill Clinton's address to the nation last week. Instead of wresting the political initiative from Republicans, Clinton in effect admitted that he had erred and promised to mend his ways. The defining features of the first two years of his presidency were dropped. Deficit reduction became a dead letter, as did fond hopes of expanding the government's role in healthcare and worker training. The new policy objectives are frankly Reaganesque: to reduce the burden of taxation and get government off people's backs.

Clinton's "bill of rights" (an absurd misuse of language) consists of a ragbag of proposed tax breaks for "middle class" families (American parlance for anybody who is neither poor nor affluent) estimated to cost $60bn over five years. It includes child tax credits, deductions for college and vocational education, and concessions on retirement saving. The White House swears it will be paid for by cutting the federal bureaucracy and freezing domestic spending, but it has yet to produce the details.

As tax policy, the Clinton proposal is little short of disastrous. The increased deductions for children championed by Republicans can perhaps be defended on the grounds that the tax system has become less generous toward children in recent decades. But the new element in the Clinton scheme – a tax break for post-secondary education – represents a damaging (and potentially expensive) retreat from fiscal neutrality. Instead of introducing extra fiscal concessions, the US needs to build on the achievements of the bipartisan 1986 tax act by broadening the base further and cutting marginal rates.

But close analysis of the Clinton plan is a waste of energy. The crucial point to remember is that Democrats no longer control the congressional budget machinery. Republicans will be as contemptuous of Clinton's fiscal proposals as Democrats were of the Reagan and Bush budgets in the 1980s.

Before Clinton spoke, senior Republicans were already calling for much larger tax cuts. Senator Phil Gramm of Texas, a likely presidential contender in 1996, wants to double the dependent exemption for children, a measure that would cost $124bn over five years. There is thus no point worrying whether the Clinton proposals would increase the deficit; the fiscally-relevant question is whether Republicans will cut spending sufficiently to offset their proposed tax cuts.

I am cautiously optimistic that they will, although I would not blame bond investors for remaining sceptical. To believe that tax cuts will mean higher deficits, just because they did in the 1980s, is to fail to grasp the changing nature of US politics. Tax cuts used to mean higher deficits largely because the Democrats who controlled the House of Representatives passionately opposed deep cuts in domestic spending. Reagan was thus forced to choose between no tax cuts or tax cuts plus large deficits.

The mindset that created that impasse largely disappeared in last month's political revolution. "Liberal" Democrats were vanquished on November 8. The incoming conservatives relish the prospect of "downsizing" the federal government. If they shy away from spending cuts and allow the deficit to balloon, while simultaneously pushing for a constitutional amendment requiring a balanced budget, they will lose all credibility with voters.

The larger question is whether Clinton was wise to repackage himself as a moderate conservative. I suspect he was. There are two possible explanations for the Democrats' defeat last month that might be dubbed "disgruntled voters" and "ideological shift". On the first view, voters (especially blue-collar white males) lashed out at the ruling Democrats primarily because they were feeling economically insecure. If congressional Republicans do not create genuine economic prosperity in the next two years, the argument runs, they too will feel the voters' wrath.

There is obviously something in this argument. The rapid productivity growth of the immediate post-war decades has not yet been re-established and real wages are consequently rising slowly for many groups. Yet it was absurd of Clinton to talk of Americans "hurting", as though the economy were still mired in recession. More than 5m jobs have been created since he took office. The unemployment rate is down to 5.6 per cent. Gross private investment is up nearly 30 per cent. Vehicle and new home sales are up about 20 per cent and running close to the peak levels of the 1980s. People who feel economically insecure do not spend this readily.

The election results thus almost certainly reflect a deeper-seated ideological shift. Times really are changing. A couple of generations after Franklin Roosevelt's "New Deal", Americans have finally lost confidence in the ability of government to solve problems.

Think of the hardening of attitudes on welfare: the majority view now is that strict time limits should be placed on benefits. Think of the healthcare debate: as soon as the Clinton plan was perceived as a government takeover of private provision, it was doomed. Think of the desire to curb politicians' powers: 22 states have passed legislation limiting the terms of elected representatives. Speaker-elect Newt Gingrich may be the *bête noire* of Washington intellectuals. But they, not he, are the aberration. Hence Clinton's decision to risk an egregious flip-flop and dress himself in Republican clothing.

OBSERVER

Down but not out

■ Standing for election to become a common councilman of the City of London recently, PR man Peter Jennings made the mistake of suggesting he might like to become Lord Mayor one day. The powers that be recoiled in horror at such a bald statement of ambition. But the obscure and oh-so-discreet system by which Lord Mayors have hitherto emerged is on the line, judging by current shenanigans within the Court of Aldermen.

Change was in the air earlier this year when Neil Young resigned. The court had reviewed the batting order for mayoral office, and Young heard his name would not "go forward". So Malcolm Matson, a businessman who has made his money in cable networks, was voted in by the Bread Street ward as his successor, but he failed to secure the approval of the aldermen themselves. Incensed at the blackballing – for which no reasons are given – Matson last Friday obtained an injunction stopping another election being called. As a result, a system that was last considered in detail in 1834 will be subject to judicial review. Matson says he has the financial resources to "see justice prevails".

It could well be that, 160 years on, the courts will be a good deal more sensitive to the exigencies of democracy. The proceedings promise a fascinating insight into the darker side of City politics. And there is also the embarrassing possibility that the aldermen will be forced in the end to accept Matson. At least he would provide some company for Tony Bull, who has been in a rather awkward position this year since he chose not to stand down, despite also being passed over as a future Lord Mayor.

Acoustic couples

■ Telephone users must be puzzled by the advertisements for Concert, British Telecom's new joint venture with MCI, boasting of the "seamless" global network that will be created. For the illustration clearly depicts an American telephone socket into which a BT phone plug would never fit. If only Britain did have compatible plugs, it would be a pace or two further down the information superhighway.

Wrong numbers

■ Observer is also a trifle worried about BT's in-house maths expertise, if the specimen on show in the company's latest report to shareholders is anything to go by.

'I've stopped contributing to the Tory party'

A sharp-eyed reader points out that BT, boasting about its price competitiveness, seems to think that, if it keeps its prices stable while retail prices rise by 50 per cent, it has achieved a 50 per cent reduction in real terms for its customers. Would that life were so simple.

It is, however, the mistake that chairman Sir Iain Vallance makes when he boasts that, in the 10 years since the company was privatised, retail prices rose 57 per cent in the UK, while a basket of BT's main services rose by "less than 9 per cent".

Thus "overall prices paid by customers have been virtually halved in those 10 years". The maths whizzes at BT seem to have subtracted 9 per cent from 57 per cent to arrive at 48 per cent.

Observer's suggestion is that the answer is actually (48÷157)%, or a rather more modest 30.6 per cent decline, in real terms, in prices paid by the customer.

Ah well. Just a word of warning to Vallance when he is next working out his salary.

Low note

■ One of the latest additions to London's National Portrait Gallery – a Nigel Boonham sculpture of the English National Opera's former general director, Peter Jonas – doubtless looks very fine in the midst of its 20th century collection. But can that really have been its intended destination?

Boonham, whose previous subjects include the Princess of Wales and Lord Runcie, was commissioned by the ENO to do a bronze of Jonas when the latter departed in the summer of last year. All quite normal – Jonas had been *in situ* for eight years, and had been widely regarded as a brilliant director. Before, that is, things tailed off towards the end.

The sculpture had been finished for months before it mysteriously popped up at the NPG just recently. Hope Jonas, now installed at the Bavarian State Opera, won't act prima donna-ish about this minor shift of key ...

On the line

■ Inclining to the view that Internet bores deserve anything that comes their way, Observer was delighted with the following diverting tale from one hapless surfer in cyberspace.

Wishing to travel from London Waterloo to bijou Barnes, 20 minutes down the line in a south-westerly direction, he consulted Internet's railway timetable.

The system quickly found the route. Travel from Waterloo on the 21.39 to Brussels on Eurostar. Return to Ostend, take a ferry to Ramsgate, a train to Waterloo and a train to Barnes, where you will arrive at 7.19 the following morning.

Comparative

■ What word can you make shorter by adding two letters? Short.

FINANCIAL TIMES
Monday December 19 1994

China refuses to take on state companies' debts

By Tony Walker in Beijing

Chinese officials sought yesterday to distance the country's government from responsibility for debts incurred by state-owned companies.

They also warned investors from other countries that they should not assume that the government would bail out projects that had gone sour. Their comments followed reports in the international media about difficulties over payments.

Beijing also hit back at negative foreign reports about China's investment climate. Strong official criticism of recent western reporting indicates growing sensitivity to stories that affect China's credit rating and confidence in the country as a safe investment area.

Mr Liu Zhiben, director-general of the investment division of the Foreign Trade and Economic Co-operation Ministry (Moftec), said the "flimsy linkage of corporate disputes to the government's credibility is a thinly veiled attempt to mar the image of China as an investment magnet".

Mr Liu told Business Weekly newspaper: "Some investors are fond of the idea that doing business with Chinese state-owned companies means gaining a secure link with the Chinese government – a link that could come in handy, if the state-owned Chinese investment partner suffers losses.

"But the reality of the arrangement is different. For many years, Chinese enterprises, whether state, collectively or privately-owned, have had to sink or swim on their own. The days of rigid central planning and responsibility for state firms has gone. It's not strange to see contractual conflicts. However, these cannot be regarded as anything relating to government action."

In the past few weeks, China's reputation as a reliable business partner has been buffeted by three high-profile cases.

These involve a dispute with Lehman Brothers, the US brokerage house, involving prominent state corporations, about losses of $100m on currency trading; an argument with the London Metal Exchange over $30 to $40m in trading losses incurred by the China International Trust and Investment Corporation (Citic); and the non-payment by state enterprises of $500 to $600m to joint-venture leasing companies.

Western banks and credit agencies have increased monitoring of the credit performance of Chinese organisations. Concern about the ability of Chinese enterprises to meet their obligations to foreign creditors is leading to an increase in borrowing costs for Chinese institutions.

China's foreign debt is expected to reach $100bn this year. This will mean a debt-service ratio of around 12 per cent. About two-thirds of China's debt is government-guaranteed.

Scramble in Shanghai, Page 4
High-risk strategy, Page 13

Confidence vote likely to topple Berlusconi government

By Robert Graham in Rome

The government of Mr Silvio Berlusconi, Italy's prime minister, will almost certainly be defeated in a no-confidence vote on Wednesday. A fatal blow was dealt on Saturday when Mr Umberto Bossi, leader of the populist Northern League, announced that his party would quit the rightwing coalition and support the no-confidence motion.

The fall of the eight-month-old government would initiate a highly unstable period of political bargaining. All the options for forming a new government are beset by serious unresolved problems. In the absence of a new parliamentary majority, elections could be called for next spring.

The league's withdrawal came after weeks of mounting dissension between Mr Berlusconi and Mr Bossi, who said he would back the no-confidence motion to be proposed jointly with Mr Rocco Buttiglione's Popular party (PPI). The PPI is the heir of the Christian Democrats who dominated Italy's postwar politics until discredited by corruption scandals.

Mr Bossi played down suggestions that his break with the government would split the league and leave him as head of a small rump of the movement. Up to 50 of the 163 league members in both houses have talked of staying with Mr Berlusconi.

But Mr Bossi has proved an astute politician, and it is significant that the league has not directly associated itself with two other no-confidence motions also being presented on Wednesday. One has been tabled by the Democratic Left (PDS), the former Communist party – and now the main opposition force – with which Mr Bossi has been in close contact.

An open alliance with the PDS is still rejected by many in the league because of the former's communist past and its ambiguous relationship with Reconstructed Communism, which represents the hardline core of the old Italian Communist party.

Reconstructed Communism has tabled a third motion of no-confidence. These motions will allow at least one trial run to test the league vote and the scale of opposition to Mr Berlusconi.

At the same time the three votes allow the league and the PPI to signal their distance from the left.

Even if the league split, it would be surprising if the anti-government bloc failed to muster the 316 votes necessary to bring down Mr Berlusconi.

The present coalition consists of Mr Berlusconi's Forza Italia movement, the league, the neo-fascist MSI/National Alliance, and two minor partners, the Christian Democratic Centre and the Radicals.

THE LEX COLUMN

Saatchi isn't working

Shareholders in Saatchi & Saatchi have not merely deposed an advertising icon; they have introduced a striking new dimension to corporate governance in the UK. It is common in the US, but rare in Britain, for minority shareholders to band together in pursuit of limited but specific changes – as they did in this case to seek the scrapping of Mr Maurice Saatchi's options package.

But such moves are a less clumsy mechanism for effecting change or correcting poor performance than hostile takeovers. All too often UK institutional shareholders berate management performance in private, while doing and saying nothing in public. Fund managers' generally lily-livered stance on executive pay – PosTel excepted – is but one example, creating the suspicion that institutions will go out of their way not to offend the directors who dole out lucrative asset management contracts.

Mr Saatchi's departure, the by-product but not the objective of the shareholder pressure, should not be regretted if the group ends up being better managed. The risk remains, of course, that, by removing a personality who not only gave the business its name but also commanded fierce personal loyalty from some big clients, Harris Associates, M & G and their allies have seriously wounded the company they were trying to improve.

An advertising agency is a more fragile organism than some underperforming industrial conglomerate. Nevertheless, it is also arguable that the more austere advertising market of the 1990s needs unglamorous professional management more than a cult of personality.

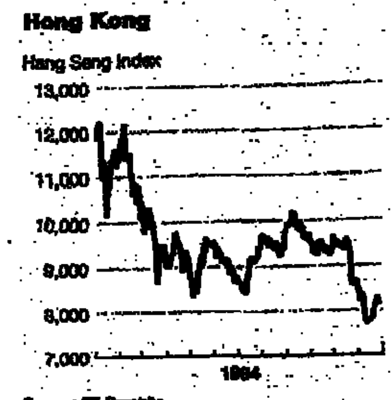
International accounts

Could the common international accounting standard be an idea whose time has finally come? Sir Bryan Carsberg's move next year to become secretary-general of the International Accounting Standards Committee, which draws up model financial reporting rules, suggests it may. If Sir Bryan displays the same vigour and independence in his new job as he has in his present position as the UK's director-general of fair trading, the cause of common accounting standards could receive a big push.

The rationale for common accounting rules is similar to that for any lingua franca: a babble of standards prevents investors making meaningful cross-border comparison of price/earnings ratios and other valuation yardsticks. With companies increasingly raising funds outside their home markets and investors keen to build diversified global portfolios, this incomprehension creates undesirable impediments to the free flow of capital.

Hong Kong

Hang Seng index



Source: FT Graphite

The concept of common standards is fine, but those produced by IASC have yet to make an impact on capital markets. Scores of countries use them as a model for their own local standards. But the rules are not recognised by the world's main stock markets – New York, London and Tokyo. Unsurprisingly, if a multinational like Daimler-Benz wishes to approach international shareholders, it adopts US rather than international accounting standards.

The IASC is keen for its standards to be recognised by the big stock exchanges, and indeed the New York Stock Exchange may in time make such a move as a way of encouraging a greater number of foreign companies to list in the US. Fair enough. But official recognition on its own will not lead to widespread endorsement by investors. Too often the IASC decides on rules by picking the lowest common denominator among its large membership. That leads to soggy standards; and investors will always prefer firm US rules to soggy international ones.

The alternative is for the IASC to improve its standards by single-mindedly putting investors' interests first – for example, by embracing greater disclosure and rooting out "creative" accounting techniques. Even relatively investor-friendly standards bodies such as the UK's Accounting Standards Board sometimes have to compromise their principles in the face of pressure from company lobbies. The IASC need not. It would then set the standards to which others aspire.

Hong Kong

Many commentators hoped the weight of global money that flooded Hong Kong last year would calm its notorious volatility. They have been disappointed. The colony's Hang Seng index rose 30 per cent last December. This year concern over interest rates, combined with gloomy political and economic news from China, has sent the market plummeting 31 per cent.

The problem is not so much political uncertainty: the colony has had 150 years to come to terms with this. In fact, Chinese intransigence is now rather more predictable than US interest rate movements, which have hit Hong Kong directly through its currency peg to the US dollar.

The two-year bull market was fed on interest rates far below the rate of inflation, which encouraged capital flows into stocks and property. This year, interest rates exceeded inflation for the first time since 1991 – and as a result the liquidity bubble has burst.

With 60 per cent of the Hong Kong stock-market earnings deriving from property and finance, the outlook is dispiriting: property developers will see profits growth more than halved from the 58 per cent achieved in 1993. The banks have suffered because of slower growth in their mortgage books. Much of the rest of corporate Hong Kong has also been hit due to its tendency to dabble in the property market.

If the interest rate cycle has stifled one source of liquidity, China's economic mandarins have removed another. The problem is not so much China's austerity measures, which will have limited direct impact on Hong Kong corporate earnings. The issue is rather the cash which last year flowed out of China and pushed up shares and property prices in the colony. More rigid financial controls have put a stop to that. They have also soured Hong Kong's attractions to fund managers as a China play.

Hong Kong is a highly geared option on the US interest rate cycle. So it is hard to imagine that the worst is over for the market until that cycle turns, despite last week's 5 per cent rally. Increased capital flows from China would spur a revival, but Beijing can hardly relax fiscal restrictions now. Volatility will remain, but the market trend is likely to be downwards.

Tory funds

Continued from Page 1

in donations but reports from the councils, used by small, privately held groups to channel cash to the party, suggest some may raise no more than half their fund raising targets.

Lord Laing, former chairman of food company United Biscuits and former joint treasurer of the Conservatives, said the 10 councils accounted for between 30 per cent and 50 per cent of total central office donations. The party has never published details of the councils, arguing they are private.

But the councils are known to include such industrialists as Mr Gareth Davies, chairman of Glynwed, the engineering company; Sir Michael Bishop, chairman of British Midland airlines; Mr Colin Hope, chairman of the T&N materials group; and Mr Jim Miller, chairman of the Wassall industrial conglomerate.

Of the 10 councils, the most important is the London-based City and Industrial Liaison Council, which in recent years has accounted for donations of up to £1.5m a year.

Midlands Industrial Council, based in Birmingham and covering the west Midlands, is believed to have a fund-raising target for this year of about £800,000.

It is thought unlikely to raise more than about half this amount.

Mr Colin MacLeod, chairman of Newark-based Caledonian Mining and chairman of the East Midlands Industrial Council, based in Grantham, Lincolnshire, said: "This year is bloody hellish. Everybody hates me [when I ask for money]."

Mr Tim Collins, director of communications at the Conservative party, said: "We prefer not to go into the detail of how we raise money. We make clear the principles but we don't think it's sensible for us to go any further."

Organised crime forecast to become top business worry

By Jimmy Burns in London

The threat of organised crime will become a top item on boardroom agendas next year, according to a report published today by Control Risks, the London-based international corporate security and intelligence consultants.

The report identifies four main reasons why financial crime and fraud will replace terrorism as the most pressing security concern for international business:

- Increasing sophistication by criminal groups in the use of banking instruments and exploitation of recently-opened borders to trade and investment. "The globalisation of legitimate business is matched by the globalisation of organised crime," says the report.
- Involvement of "demobilised" and "jobless" terrorists in racketeering.
- Intensifying social dislocation caused by urban migration and growing economic disparities.
- Absence of predominant ideologies: "In the 1990s the emphasis is on personal enrichment . . . disenchanted youths who might once have turned to radical politics now are more likely to model themselves on successful entrepreneurs, including those who operate on the wrong side of the law."

The report includes the results of a British companies' security outlook survey which singles out Russia, China, Nigeria and Egypt as the perceived areas of highest risk for doing business.

The survey was conducted among a representative sample of more than 100 top UK companies.

Heading the list is Nigeria, which Control Risks describes as a country in which business has been "caught up in opposition strikes and protests, crime and corruption". In Russia, the report notes, "extortion and racketeering are currently the major threats posed by organised crime . . . but foreign business also faces the threat of kidnapping and violent crime."

China is described as the world's largest emerging market, but is said to be fraught with difficulties for foreign business. The main problem is an "archaic and communist-inspired legal system" which cannot cope with business disputes. "Large legal loopholes leave ample scope for institutionalised corruption," the report states.

While agreeing with the surveyed UK companies about the extent of the risks in Russia, Nigeria and China, Control Risks claims that the threat in Egypt is overestimated. It notes a "more stable security environment."

Control Risks describes Algeria as the "most dangerous country in the world for foreign business", predicting growing political instability provoked by violence between Islamic extremists and the security forces. "Only a miracle will save Algeria from descending into civil war in 1995," the report states.

Business Security Outlook 1995, Control Risks Group: CRG, 83 Victoria Street, London SW1H OHW, £140.

Bootleggers threaten pub landlords, Page 5

FT WEATHER GUIDE

Europe today

Wintry conditions will persist over eastern Europe with temperatures in European Russia below -15C in places. The south-east of the continent will also be cold, with snow showers falling in Turkey. Further west, a frontal zone over Scandinavia and central Europe will cause snow in Sweden and Finland and mostly wet snow and rain in Germany.

A deep low pressure system between Scotland and Norway will draw in cold and unsettled air.

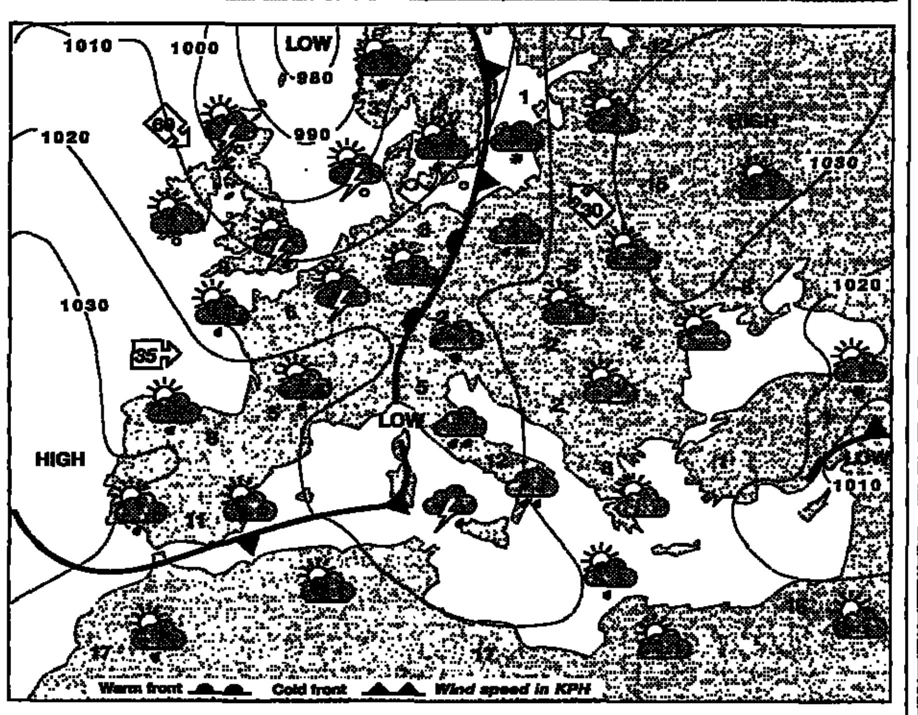
The Low Countries, France and the UK will be very showery with thunder and hail.

Over water, winds will increase to near gale or gale force at times.

The Mediterranean will be increasingly unsettled with showers over Italy.

Five-day forecast

The Mediterranean will have heavy rain and widespread thunder for the next two days. Italy, Greece and the eastern Mediterranean will have lots of rain. France and the Low Countries will also have rain at times, while the Alps will receive fresh snow. European Russia will remain very cold.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius															
			Beijing	fair	-2	Caracas	fair	30	Faro	fair	16	Madrid	cloudy	8	Rangoon	cloudy	33
			Belfast	shower	4	Cardiff	fair	7	Frankfurt	shower	4	Majorca	fair	15	Reykjavik	fair	1
Abu Dhabi	sun	28	Belgrade	fair	1	Casablanca	cloudy	17	Geneva	rain	4	Malta	shower	17	Rio	cloudy	28
Accra	fair	33	Berlin	shower	2	Chicago	fair	4	Gibraltar	fair	17	Manchester	shower	6	Rome	shower	13
Algiers	shower	16	Bermuda	fair	23	Cologne	shower	5	Glasgow	shower	5	Manila	cloudy	30	S. Frsco	fair	13
Amsterdam	shower	7	Bogota	fair	21	Dakar	fair	27	Hamburg	shower	5	Melbourne	fair	28	Seoul	fair	1
Athens	fair	9	Bombay	sun	33	Dallas	sun	18	Helsinki	snow	-6	Mexico City	fair	22	Singapore	rain	27
Atlanta	fair	13	Brussels	shower	6	Delhi	sun	23	Hong Kong	shower	21	Miami	fair	27	Stockholm	fair	3
B. Aires	cloudy	24	Budapest	fair	-1	Dubai	sun	28	Honolulu	fair	26	Milan	fair	4	Strasbourg	cloudy	6
B.ham	fair	6	C.hagen	shower	4	Dublin	shower	8	Istanbul	shower	5	Montreal	cloudy	-8	Sydney	fair	29
Bangkok	fair	34	Cairo	cloudy	15	Dubrovnik	fair	11	Jakarta	shower	31	Moscow	fair	-14	Tangier	rain	15
Barcelona	fair	12	Cape Town	fair	25	Edinburgh	fair	5	Jersey	shower	11	Munich	shower	0	Tel Aviv	thund	12
									Karachi	sun	29	Nairobi	fair	25	Tokyo	fair	9
									Kuwait	sun	18	Naples	shower	13	Toronto	cloudy	-1
									L Angeles	sun	24	Nassau	fair	26	Vancouver	rain	11
									Las Palmas	sun	22	New York	cloudy	7	Venice	fair	6
									Lima	fair	25	Nice	shower	12	Vienna	fair	-1
									Lisbon	fair	14	Nicosia	fair	14	Warsaw	cloudy	-3
									London	fair	8	Oslo	shower	3	Washington	fair	8
									Lux.bourg	shower	3	Paris	shower	6	Wellington	fair	20
									Lyon	rain	3	Perth	fair	33	Winnipeg	snow	-3
									Madeira	cloudy	20	Prague	cloudy	-2	Zurich	rain	4

FINANCIAL TIMES
COMPANIES & MARKETS
Monday December 19 1994

MARKETS THIS WEEK

TONY JACKSON:
GLOBAL INVESTOR
Next month, Republicans will seek to amend the US constitution to make it illegal for the government to borrow money. What would a world without Treasury bonds actually look like?
Page 18

MARTIN WOLF:
ECONOMIC EYE
Do you expect future generations to pay you a good pension over decades of secure retirement? If you do, you must also believe in Father Christmas. It would be better to start saving more instead.
Page 18

BONDS:
For investors in the Nordic government bond markets, this has been a year of uncertainties. Meanwhile, November was a bad month for junk bonds, which lost more than 2 per cent of their value. Page 20

EQUITIES:
In New York, the market has zig-zagged as investors tried to guess whether the Federal Reserve would raise interest rates again in December. However, the news of merger talks between S. G. Warburg and Morgan Stanley and that Trafalgar House was considering a bid for Northern Electric, plus widespread expectations of other big bids in the market, dispelled much of the recent gloom in UK equities. Page 19

EMERGING MARKETS:
New share issues, privatisations, the arrival of foreign investment funds, and the reform of the bourse's organisation have transformed the Casablanca stock exchange in less than two years. Page 19

CURRENCIES:
Meetings of the Federal Open Market Committee tomorrow, and the Bundesbank council on Thursday, offer foreign exchanges their best possibility of excitement in the final days of 1994. Page 19

COMMODITIES:
Seasonal spirit among the world's gold traders could falter this week by an "arithmetical sword of Damocles" hanging over their market. Page 18

INTERNATIONAL COMPANIES:
The board of Credito Romagnolo (Rolo), the Bologna-based commercial bank, has accepted the L3,300bn ($2bn) overture from its new suitor, the consortium led by Cariplo, Italy's biggest savings bank. Page 17

UK COMPANIES:
With less than 24 hours before its banking facilities expire, Stanhope, the property developer, was last night making last ditch efforts to stave off receivership. Page 16

STATISTICS

Rolls-Royce in BMW supply deal

By John Griffiths in London

Rolls-Royce Motor Cars, Vickers' luxury cars subsidiary, will this morning announce an agreement under which BMW of Germany will supply components and technology to help cut the cost to Rolls-Royce of producing its next generation of models.

Rolls-Royce last night declined to give details of what has been agreed after nearly a year of negotiations with BMW and Mercedes. However, it is understood that BMW will supply Rolls-Royce with one of the most fundamental of its needs – a modern V12 engine to replace Rolls-Royce's V8 power unit.

Mercedes and BMW produce these units and have been anxious to supply them to Rolls-Royce because of the increased economies of scale. Neither Mercedes nor BMW produce more than 10,000 of these engines a year. Rolls-Royce's current annual car output is below 2,000 as a result of recession in some of its main markets; but production in the past has exceeded 3,000 a year. With BMW's help, Rolls-Royce plans to introduce new saloon cars and broaden its model range, including the launch of a coupé codenamed Java.

There has been persistent media speculation of a "race" between Mercedes and BMW to become Rolls-Royce's long-term partner, with joint car development and a possible equity stake – or even outright purchase – touted as the intended outcome.

However Mr Peter Ward, Rolls-Royce chairman and chief executive, has said that the company is seeking only components and technical collaboration and that there is no reason why Rolls would not seek similar deals with other potential suppliers, including Mercedes.

BMW, which bought the UK's Rover group at the beginning of this year, already has a relationship with Rolls-Royce because it supplies several electronic systems, and through Rover, body panels. Exploratory talks with Vickers two years ago about the possible purchase of Rolls-Royce were discontinued and Sir Colin Chandler, Vickers' chief executive, has recently stated that Rolls-Royce is not for sale in the foreseeable future.

John Gapper reports on the aftermath of collapsed merger with Morgan Stanley

Warburg attempts to rebuild character

To suggest to Sir David Scholey, chairman of S.G. Warburg, that near the end of a 30-year career with the UK's leading investment bank, he has been taken for a ride by a US rival is to be met with a silent stare. "No," he says, pausing for emphasis before repeating the word quietly. "No."

It is an understandably sensitive point for Sir David and Lord Cairns, the bank's chief executive. After the collapse of their proposed merger with Morgan Stanley last week, they picked up the Financial Times to read a brisk dismissal by an executive of the US firm of their reason for merging.

Mr Stephen Waters, co-managing director of Morgan Stanley Europe, said that Mercury Asset Management, the fund management company 75 per cent owned by Warburg was "the reason for us to do this deal". There was no mention of creating a global investment bank at a single stroke.

It was not what Sir David wanted to read, amid criticism from outside Warburg – and privately from within – over the handling of the affair. By Friday, he and Lord Cairns faced suggestions that they had acted naively, and that Warburg no longer had credibility as an independent firm.

Sir David does not mince his words over Mr Waters' remarks, calling them "a subjective and selective alibi", and arguing that Mr Waters has "a hell of a containment job to do" in re-establishing the confidence of Morgan Stanley's 2,300 European staff.

The tension between Morgan Stanley's European employees and Warburg over how European operations would have been run in a merged firm, and which firm would bear the brunt of job cuts, spilled out at the end. Warburg faces its own containment job in the coming weeks.

The bluntest view, expressed by some rivals and even some of Warburg's employees, is that Lord Cairns should resign, because he is so closely identified with the failed merger. Sir David insists that all the firm's directors were involved, and no such sacrifice is called for.

"We think we were entirely right to pursue the opportunity of a merger in a way that was constructive, imaginative, and thoroughly responsible. It was not a move that was born out of dire need," he says. He talks of the inevitable risk of trying to do something "radical and bold".

The attempt broke down within days of the news leaking, and the two banks having to issue a statement that they were in talks. Warburg has been blamed for the disclosure, but Sir David says that executives wanted to involve as many employees as possible, even at the risk of a leak.

"We took a very positive view that we were not going to do this the Salomon Brothers/Phillips Brothers way [when the US investment banks merged] – asking everyone to a country club on Saturday and locking them up until they accepted that it was going to happen on Sunday."

But the collapse leaves Warburg's management with several challenges: the need to restore the confidence of staff, to convince outsiders that Warburg can continue as an independent institution, and to ensure that it can re-establish a harmonious relationship with MAM.

Sir David accepts that staff are bound to question what went wrong. "Could the management have handled it better? That is the question they are asking, and how we all respond and react to that in the hours and days and weeks ahead will be an important test for us." He insists that there is no need for Warburg to panic about whether it can survive independently, arguing that "any suggestion that this puts the firm up for sale, puts it on the line, or hangs it out to dry, or whatever, is dealer-speak rather than a reflective management view".

The problem will be to convince staff and outsiders that the bank can return to its strategy of independent expansion. Sir David talks of a strategy "fundamentally based on our pre-discussion strategy, but with adaptations and variations" and of adding "a new dynamism".

Yet he and Lord Cairns will not specify what this means, insisting that staff will be the first to be told. Warburg appears to be caught at a crossroads, with poor first-half profits suggesting the need for cuts, but the merger failure suggesting the need for more rapid growth.

Unless Warburg can make its case, it will find it hard to resist an approach from an outsider. The logic of linking up with any other institution is dismissed, with Lord Cairns talking of an "uncanny" fit with Morgan Stanley not found in rumoured predators such as HSBC Holdings.

There is also the question of whether Warburg's relations with MAM will be damaged by the affair. It was MAM's demand for operational independence as well as a premium offer for minority shareholders that convinced Morgan Stanley there was no point in proceeding.

Sir David says MAM's board "acted entirely professionally and properly, and in accord with how we would expect them to act". He says MAM's independence remains vital, but admitted that Warburg will have to "communicate and re-affirm the continuing relationship" with MAM.

He talks of the merger collapse being "very edifying and stimulating, and if we react in the right way, as one's grandfather might say, it will be character-building". But convincing Warburg's employees and observers that it can carry on alone will take all of Sir David's grandfatherly qualities.

Sir David Scholey (left) and Lord Cairns, chief executive, must restore Warburg's credibility

'We think we were right to pursue the opportunity of a merger in a way that was constructive, imaginative and responsible. It was not born out of dire need'

Sir David Scholey, chairman of S.G. Warburg

Trafalgar may bid for power group today

By Michael Smith in London

Trafalgar House executives were meeting advisers last night amid expectations that the UK conglomerate will launch a bid this week, possibly today, today for Northern Electric, the UK regional power company.

However with a final decision still to be taken late in the evening, it was still possible that the conglomerate would wait until the New Year to bid.

Any takeover attempt will be fiercely contested by Northern Electric and will probably face a forceful political lobby in the north-east of England where the company is based.

If the attempt goes ahead today, Trafalgar is expected to pitch its opening offer at a relatively low premium to the 985p share price at the close of business on Friday, when the company was valued at about £1.1bn ($1.8bn).

It is likely that Trafalgar will leave the publication of a formal offer document and the opening price until the new year.

Last week the government said it would not waive its "golden share" in each of the 12 regional electricity companies before the end of March. This effectively ruled out the completion of a deal before then.

Trafalgar is likely to offer Northern shareholders either cash or convertible preference shares. Hongkong Land, the Jardine Matheson arm which owns 25 per cent of Trafalgar, is likely to underwrite some of the issue.

Trafalgar last week reported a pre-tax profit of £45.6m for 1993-94, against a loss of £347m the previous year. Northern on Monday announced a 20.5 per cent rise in interim pre-tax profits to £63.4m.

The 30 per cent dividend increase was one of the highest reported by regional electricity companies in the current results season.

Trafalgar is thought to be undecided about the fate of Northern's management should its takeover attempt succeed. Trafalgar's potential bid has intensified speculation that the structure of the electricity industry will be transformed in the next few years either by more takeovers or friendly mergers.

It is also possible that other companies will enter the fray for Northern. Hanson and Tomkins have been suggested as candidates.

This week and next: Company news

BULL

France outlines final stage of sale process

The French government will this week inform those companies that have made preliminary bids for a stake in Groupe Bull whether they can go on to examine the books of the state-controlled computer company to make a final offer by mid-February.

The industry ministry has said that it has been decided after all not to announce a shortlist by Christmas of companies "pre-selected" for the final stage of the operation. It indicated that some companies had wanted to keep their interest in Bull confidential, and the government would respect this.

By contrast, Quadral, a French electronics company, has said it made a bid, which is reported to be in the form of a joint offer with AT&T of the US, while NEC of Japan has shown interest in increasing its existing 4.34 per cent stake in Bull.

The industry ministry said that from now until mid-February it would be up to the companies concerned to reveal their interest in Bull if they wanted to. According to some sources, the Bull privatisation has drawn interest from several non-Japanese Asian groups such as Samsung of South Korea and Acer of Taiwan.

The government wants to reduce its 76 per cent stake in Bull, headed by chairman Jean-Marie Descarpentries (pictured above right), to a minority holding by next spring. But, given that Bull is still losing money – though on a reduced scale – the government is seeking privatisation through the formation of industrial partnerships rather than a public offer for sale.

It has said it is looking either for a majority shareholder or several important shareholders each taking at least 10 per cent of the capital. It has equally said that new partners could subscribe new capital, so diluting the the state's stake, or they could buy shares off the state.

Descarpentries of Groupe Bull

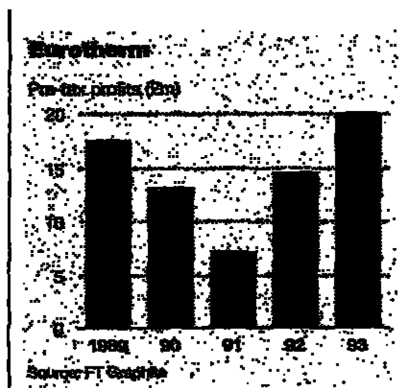
OTHER COMPANIES

High noon for IRI on New Year's Eve

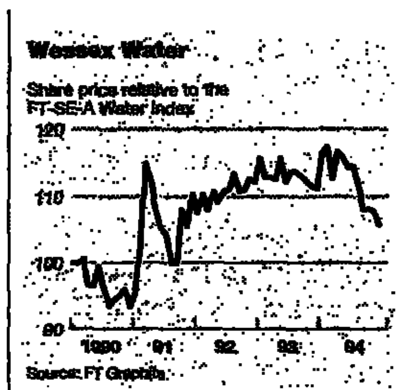
IRI, the Italian state holding company, has until midnight on December 31 to complete the privatisation of Italy's state-owned steel industry, in line with a deal struck by EU industry ministers in December 1993. The most difficult sale is likely to be that of Ilva Laminati Piani, the flat steels company, for which two rival consortia have tabled offers. IRI's directors decided last week to pursue their examination of the bids and are certain to have another meeting before Christmas to discuss the situation. If IRI fails to sell ILP, the European Commission could demand the repayment of nearly L5,000bn ($3.25bn) of state subsidies which Ilva was set to receive.

■ **East Midlands Electricity:** The utility will today bring the UK power results season to a close when it announces profits and dividends for the half-year to September 30. Last October the company announced it was to give back £186m ($305m) to shareholders as a special dividend, or 85p per share. It chose this route rather than buying back shares. The interim dividend may therefore be less generous than other regional electricity companies have been able to provide. Nonetheless, at least 15 per cent is expected and profits are likely to be well ahead.

■ **Eurotherm:** The UK industrial process control equipment supplier has performed well in recent years by cutting costs and improving productivity. Now investors are looking for evidence that the management under Mr Claes Hultman, chief executive, can boost sales. Confirmation that order book strength has been translated into higher sales could come when Eurotherm reports its results tomorrow for the 12 months to October 31. These should show pre-tax profits up from £20.1m to about £26m ($42.64) and earnings of around 19p.



■ **Wessex Water:** One of the smallest of the 10 big privatised water and sewerage groups in England and Wales, should tomorrow report a profits rise of more than 10 per cent to £58m-£60m ($95m-$98.4m) (previous, £53.4m) pre-tax, while the dividend is forecast to go up by a similar margin to 4.5p (4p). Investors will be waiting for a progress report on the company's ambitious waste management joint venture with the UK arm of WMX, the US-based world leader in waste.



■ **NFC:** Sir Christopher Bland, who officially takes up his new postion today as chairman of the UK-based transport and logistics group, has a tough job on his hands. A former chairman of LWT, Sir Christopher has the task of restoring the City of London's confidence in the group. But before that he must solve the more pressing problem of finding a new chief executive.

The group has said an announcement will be made in the next few weeks. NFC's problems are not limited to personnel. Operating profits fell last year to £114.2m ($187m) from £116.7m and the shares have dropped from 243p at the beginning of the year to 182p on Friday.

The group says it intends to accelerate its cost-cutting programme.

Companies in this issue

Receivership looms unless a deal can be agreed with its lenders

Last ditch efforts at Stanhope

By Simon London
Property Correspondent

With less than 24 hours to go before its banking facilities expire, Stanhope, the property developer run by Mr Stuart Lipton, was last night making last ditch efforts to stave off receivership.

Since the last formal meeting of Stanhope's 16 lenders last Tuesday, intensive discussions have taken place between the company, its banks and potential rescuers.

The banks, led by Barclays, must either extend their £140m loans beyond today's repayment deadline or force the company into receivership.

The two main rescue proposals have come from Postel, the post and telecommunications pension fund run by Mr Alastair Ross Goobey, and British Land, the property investment company headed by Mr John Ritblat.

While both rescue packages have been refined to offer Stanhope's lenders better terms, the banks would still have to write off up to 20p in the pound on their loans.

Alternatively, Stanhope believes it has found an investor willing to provide working capital in return for an equity stake in the company, if the banks agree to a debt standstill of up to three years.

The company hopes that the value of its main asset – a 50 per cent stake in Broadgate Properties, which owns much of the Broadgate and Ludgate developments in the City of London – would rise sufficiently during the standstill period to give the banks full repayment.

However, the banking syndicate has been unable to agree on a course of action. Some of Stanhope's banks also made loans to Broadgate Properties and Rosehaugh, which owns the other half of Broadgate and is already in receivership.

KPMG Peat Marwick would be favourite to be appointed receiver at Stanhope. It already acts for the banks at Rosehaugh and could therefore handle the disposal of Broadgate Properties as a single entity.

Berisford in talks for US purchase

By Simon London

Berisford International, the former property and commodities group which earlier this year bought Magnet kitchens, is in negotiations which could lead to the acquisition of a US kitchen equipment maker for about $500m (£305m).

While talks could be concluded this week, Berisford has yet to agree terms with Welbilt Corporation, which manufactures commercial kitchen equipment for fast food chains such as McDonalds and Burger King.

If the deal goes ahead, Berisford will finance the deal through a rights issue.

On December 6, Welbilt said that it had received an approach which could lead to the sale of the company and had appointed Donaldson Lufkin Jenrett, the US investment bank, as adviser.

Welbilt is 47 per cent owned by Mr Jerome Kohlberg, a founder of Kohlberg Kravis Roberts, the leveraged buy-out company. A secondary offering of shares held by Mr Kohlberg was withdrawn when Berisford made its approach.

In 1993 Welbilt's net income before extraordinary charges was $9m on turnover of $426m.

The acquisition would allow Berisford to utilise some of its accumulated US tax losses arising from activities in commercial property in the 1980s.

The deal would be Berisford's second large acquisition since Mr Alan Bowkett took over as chief executive in 1992. In January it paid £56m for Magnet, also financed through a rights issue.

Last year, its £180m bid for C&J Clark, the privately owned shoe company, was rejected.

Thorn EMI sale

Thorn EMI has sold its Thorn Automation engineering business to its management for about £8.25m. The consideration, plus £7m of funding, has been provided by 3i and senior debt and banking facilities by Royal Bank of Scotland.

Rebel shareholders reject QMH proposals

By Tim Burt

Rebel shareholders at Queens Moat Houses yesterday rejected a £1.3bn rescue plan for the debt-burdened hotels group, claiming it was unfair to existing investors.

The Queens Moat Houses Shareholders Action Group, which claims to represent 4,000 investors controlling 10 per cent of the equity, said the plan – involving a £200m debt for equity swap and revised borrowing terms – was "quite unacceptable".

Mr Denis Woodhams, secretary of the group, said holders of ordinary shares were dismayed by moves to dilute their interests from 81 per cent of the company to 24 per cent.

"These proposals are a manifestation of the board's lack of confidence in its own ability to produce even an industry average profit performance," he added.

The dissident group has proposed an alternative rescue rights issue drawn up by Mr Peter Eyles, former managing director of Norfolk Capital Group, the luxury hotel company acquired by Queens Moat in 1990.

It is likely, however, to encounter strong opposition from the Queens Moat board.

Mr Andrew Coppel, chief executive, warned last week that the group would have to cease trading if it failed to take up the debt-for-equity and financial reconstruction proposals.

Claims, meanwhile, that the rebel group would receive widespread support at this week's annual meeting have been rejected by the company.

"The institutions were canvassed in advance of our [reconstruction] scheme and are supportive of it," Queens Moat said.

The company also questioned the number of shares controlled by the action group, adding that it would not have an opportunity to challenge the rescue plan until an extraordinary meeting was called in the new year.

Nevertheless, a solicitor acting for Mr John Bairstow, Queens Moat's former chairman, is expected to seek an adjournment of Wednesday's annual meeting. Mr Alan Reed, who manages several shareholding trusts, wants the re-election of directors delayed until shareholders have considered the refinancing proposals.

The company dismissed such action as "nuisance making".

Poll taken at Wellcome AGM

By Daniel Green

A revolt by small shareholders at Wellcome's annual meeting forced the company to hold a poll on a special resolution.

The results of the poll showed a big majority in favour of the resolution, thanks to the weight of institutional shareholdings.

The shareholders rebelled against a plan to renew the company's right to issue new shares – up to 5 per cent of the issued capital – for cash, without offering all shareholders the opportunity to avoid dilution by buying some of the newly issued stock.

Such resolutions are not uncommon. They allow management some flexibility in corporate deals, for example to offer shares to a prospective business partner.

Two shareholders spoke against the motion and enough voted against it to make it unclear whether the required 75 per cent majority had been secured. A poll resulted in a 99.37 per cent vote in favour.

Oceonics in the red as finance director leaves

Oceonics Group, the lossmaking marine survey company, announced the departure of its finance director and cuts in executive salaries after sliding into the red with losses of £1.69m in the half year to September 30.

It said Mr Mike Hutchison would be leaving the group at the end of the current financial year, in which it has cut 131 jobs – 20 per cent of the workforce – amid weak demand and over-capacity in the offshore oil industry.

The company said Mr David Arnold, the newly appointed group commercial director, would take over as finance director from Mr Hutchison. The costs associated with Mr Arnold's appointment were being matched with voluntary cuts in director compensation.

The loss, against pre-tax profits of £222,000 last time, was on turnover down from £13.2m to £8.19m. Losses per share were 1.2p (0.2p).

Royal Bank lifts stake in motor insurance venture

By Ralph Atkins,
Insurance Correspondent

The Royal Bank of Scotland increased by £5m its investment in a new motor insurance company set up with Mr Peter Wood of Direct Line after discussions with the Department of Trade and Industry, the bank's annual report revealed on Friday.

The bank announced last year that it intended to invest £24m in Privilege, which is aimed at "non-standard" risk drivers, but it increased its stake to £29m in May after talks with the DTI, which is responsible for regulating the insurance industry.

Privilege began trading in the autumn.

Royal Bank of Scotland's decision increased the preference shares it owns in Privilege to 27.5m from 22.5m. The bank also owns 1.5m ordinary shares and Mr Wood owns a further 1m.

NEWS DIGEST

Phoenix recovers to £173,000

Phoenix Timber Group swung back into the black at the mid-term stage as the Essex-based flooring company built upon the improvement shown in last year's second half.

Turnover from continuing operations amounted to £8.58m (£8.33m) in the six months to September 30, including £54,000 from acquisitions. After a reduced interest burden, pre-tax profits were £173,000, against losses of £525,000.

The company stressed, however, that the improvement mainly reflected cost cutting; the market for its main operations remains weak, although trading in the last three months has shown some "encouraging signs".

Earnings per share emerged at 0.55p, against losses of 1.94p.

Electra Inv Trust

Fully diluted net asset value per share at Electra Investment Trust stood at 380.24p at end-September, against 341.3p a year earlier. This represented a rise of 11.4 per cent, while the FT-SE-A All-Share Index rose by 0.3 per cent in the period.

Net revenue for the year was £14.7m (£14.1m), with earnings of 7.5p (7.54p). A proposed final dividend of 3.7p (3.55p) gives a total of 7.25p (7p).

Haemocell

In a year of "consolidation and change", Haemocell, the USM-quoted medical equipment maker, incurred increased pre-tax losses of £2.35m against £2.13m for the 12 months to August 31.

The primary task, according to Mr Andrew Priestly, chairman, had been to restructure operations and establish an international sales and distribution network.

Turnover was £212,000, compared with £1.12m which included an exclusive distributor's inventory, most of which was repurchased or returned as part of the termination agreement.

The company's priority remained to market its System 350 blood transfusion device, Mr Priestly said.

Losses per share were 10.9p (10.1p).

Chemex Intl

Chemex International, the USM-traded chemical analysis company, continued its recovery into the second half, ending the year with a pre-tax profit of £135,534, against a deficit of £12,961 last time.

Turnover for the 12 months to September 30 grew to £1.59m (£1.33m) and the pre-tax outcome was struck after net interest payable of £3,141 compared with income of £2,337.

Earnings emerged at 0.33p (0.03p losses) and the company is introducing dividend payments with a 0.1p distribution for the year.

It also said it intended to apply for a full listing.

Bankers Inv Trust

The Bankers Investment Trust saw net asset value per share decline 2.3 per cent from 183.5p to 179.3p in the year to October 31. The FT-SE-A All-Share Index fell by 1.9 per cent over the period.

Net revenue edged ahead to £6.66m (£6.61m), with earnings at 4.26p (4.23p) per share. A fourth interim dividend of 0.99p gives a total of 3.9p for the year, up from 3.68p. A total of not less than 4.12p is forecast for the current year.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Morgan Stanley (US)	SG Warburg (UK)	Banking	n/a	Merger talks scrapped
National Health Labs (US)/Hoffman-LaRoche (Switzerland)	Joint Venture	Healthcare	est £609m	Further sector restructuring
Nike (US)	Canstar (Canada)	Sporting goods	£253m	Team equipment move
Emap (UK)	Unit of Maclean Hunter (Canada)	Publishing	£80m	Continental Europe buy
CWB Partners (UK/Germany)	Iro (Sweden)	Textile machinery	£53m	Handel och Industri sale
ASW Holdings (UK)	SAM (France)	Steel	£51m	ASW seeks critical mass
Union Carbide (US)	Unit of ICI (UK)	Chemicals	£40m	Needs OFT approval
Fairey Group (UK)	Randomat (US)	Electronics	£37m	Further sector expansion
GE Capital (US)	Service Bank (Germany)	Financial services	£31m	Consumer finance move
Smiths Industries (UK)	Sodiamex (France)/ Interplas (Switzerland)	Industrial equipment	£18.3m	Cash + debt deal

Rolo board accepts Cariplo bid

By Robert Graham in Rome

The board of Credito Romagnolo (Rolo), the Bologna-based commercial bank, has accepted the L3,300bn ($2bn) overture from its new suitor, the consortium led by Cariplo, Italy's biggest savings bank.

Board approval following weekend meetings was widely expected following the Cariplo consortium's unexpectedly generous offer last week. The consortium offered L21,500 per share for 70 per cent of Rolo's stock.

This was not only L1,500 more per share than the improved offer made by the recently privatised Credito Italiano (Credit) but also extended to 70 per cent of the shares instead of the 63.6 per cent proposed to shareholders by Credit.

Rolo declined to comment formally on the meeting; but the board was apparently unanimous in deciding that the Cariplo offer was more advantageous.

The Credit bid, first launched in October, has always been regarded by the bulk of the board as hostile.

The Cariplo bid was first mounted in conjunction with Carisbo, the main savings institution in Emilia Romagna and IMI, the treasury-controlled bank. But this trio has now been joined by Reale Mutua, the insurance group.

The next step will be for the Bank of Italy to pronounce upon the counter-offer, having already given the green light to Credit. The Bank of Italy is likely to have already been sounded out informally, not least because behind-the-scenes discussions between Rolo and Milan-based Cariplo have taken place at intervals for much of the year.

The Bank of Italy may not be entirely happy at the prospect of Rolo, one of the healthiest private commercial banks, being controlled by banking institutions which have yet to be privatised. But this is unlikely to halt the deal.

Only when approval has been given can the counter-bid be formalised. Given the Christmas break, this could mean a delay until the second week in January. The main imponderable now is whether Credit will accept defeat without a further fight.

Credit's bid would cost the bank L2,800bn and most analysts have ruled out its raising the stakes without help. Over the weekend there were press reports that Credit might be enlisting the support of Allianz, its leading German shareholder, as well as Banca Commerciale Italiano.

Nine West claims to have US Shoe deal

By Richard Tomkins in New York

Nine West, the US footwear group that made a $425m unwanted bid approach for US Shoe's footwear business earlier this year, said it had won agreement to buy the division for $600m.

The claim was made after the stock market closed on Friday. US Shoe confirmed that it had conducted confidential discussions with Nine West, but denied that an agreement had been reached.

US Shoe is a specialty retailer of women's clothing, optical goods and footwear with about 2,200 stores and annual sales of about $2.7bn. Its lacklustre earnings record has put it under pressure to improve its performance.

Nine West, a rival of US Shoe, designs and sells women's fashion shoes and has annual sales of about $550m.

It first approached US Shoe in July with a proposal that US Shoe should spin off its clothing and optical businesses and merge its footwear business with Nine West's. However, US Shoe's board rejected the idea.

Soon afterwards, Nine West publicised details of the approach in what appeared to be an attempt to generate support for the plan from US Shoe's shareholders, so putting pressure on the company's board to reconsider.

On Friday, Nine West said it was offering $600m in cash for US Shoe's footwear business plus warrants to purchase 1.85m Nine West shares at an exercise price of $35.50 a share. The warrants would have a term of seven years and one warrant would be issued for every 25 issued US Shoe shares.

Mr Vincent Camuto, co-chairman and president of Nine West, said US Shoe would provide a "terrific" fit and the acquisition would benefit Nine West shareholders from the outset.

US Shoe said it would not make any further comments on the negotiations until such time as a definitive agreement had been reached.

Cash-rich corporates put own stock top of buy lists

US companies are flush with cash – and some are finding more ways to return it to their shareholders.

On Friday, General Electric said it would buy $5bn worth of its shares in the market over the next two years. That took to a record $65bn the value of stock buy-backs announced so far this year, topping the $62bn reached in 1989, according to Securities Data.

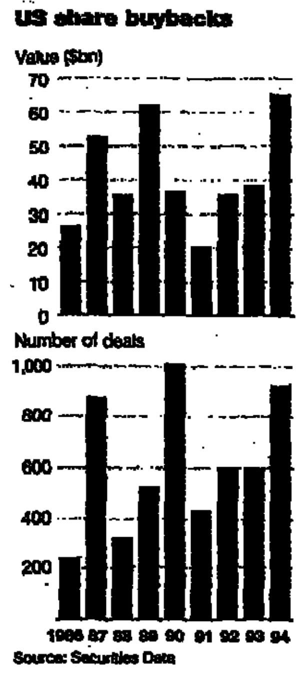
Does this mean, as US chief executives have been saying, that shares are cheap? Or is it a signal that the US stock market is past its prime, and due for a further correction?

This year's buy-backs are, first and foremost, a sign of the strength of US corporate cash-flow. The last big wave of buy-backs came at the end of the 1980s, before the US recession. Now, after the faltering early years of the recovery, the US economy has surged and a bigger flow of cash into corporate coffers has been one result.

Some companies have given up this cash willingly, while others have been strong-armed by shareholders into unlocking their war-chests. Chrysler was pressured by its biggest shareholder, Mr Kirk Kerkorian, into announcing a $1bn buy-back at the end of November. And the biggest programme of the year – a $6bn plan by Philip Morris announced in August – came after a management upheaval prompted by shareholder dissatisfaction.

Many companies are combining buy-backs with higher dividends to distribute their surplus cash. Chrysler's 60 per cent dividend rise lifted the yield on its stock from a meagre 2 per cent or so to over 3 per cent, ahead of the market average. GE's announcement also included a 14 per cent dividend increase, the latest in a long string of higher cash payouts by the industrial giant.

US share buybacks



Source: Securities Data

In spite of announcements such as these, the overall dividend yield on the broad-based S&P index of US companies remains below 3 per cent. "Dividends are generally below traditional levels," says Mr Byron Wien, a strategist at Morgan Stanley in New York. There is still room for some big dividend increases as "some companies continue to catch up", he says.

To the companies buying in their shares, the rational is simple: they are cheap. "GE stock today makes the best investment we can make," Mr Jack Welch, GE chief executive, said on Friday.

This is in part just another version of the standard rhetoric of company bosses: that the stock market does not value their shares highly enough. But it also indicates that companies such as GE have reviewed all the ways of using their cash – through higher capital investment or buying other companies, for instance – and decided that none offers a better alternative. That suggests a cautious view of future growth following the series of US interest rate rises this year.

One result could be a further slowdown in the takeover market, which has been cooling since a surge of activity over the spring and summer. GE itself had planned to use more than $2bn of cash to buy Kemper, a financial services group, this year – but it has shown no sign of returning to the fray now that a rival bid for Kemper has collapsed (although GE says it could easily suspend its buy-back programme to make acquisitions).

Many of the buy-backs are direct responses to slowing earnings growth. The banking sector remains the clearest example. Replete with capital and facing modest revenue growth at best, many banks have embarked on share repurchases to maintain double-digit growth in earnings a share – reducing the number of shares outstanding is the most direct route available to a company to do this.

Are companies simply looking for ways to support their share prices as the surge in profits passes? Most US analysts predict that the earnings cycle is not over yet, and that 1995 profits will mark a further steady rise from this year.

But after the round of interest rate increases and the chance of another, perhaps as early as tomorrow, the prospects for 1996 are getting hazy. That weakens one of the underpinnings for share prices at their current levels – whatever companies do to buy in their own stock.

Richard Waters

Listing for Deutsche Waggonbau

By Judy Dempsey in Berlin

Deutsche Waggonbau, eastern Germany's railway carriage manufacturer, which is one of the last remaining enterprises in the hands of the Treuhand privatisation agency, will be listed on the stock exchange, according to agency officials.

The listing will be made after Advent International Corporation, a Boston-based venture capital company, and Siemens, Germany's electrical and electronics group, which have teamed up to buy DWA, have completed a modernisation and investment programme. The purchase contract should be signed next month.

Although the Treuhand would not confirm the price, officials from IG Metall, the steel and engineering union, said Advent and Siemens will pay about DM120m ($76m) for DWA, which has subsidiaries throughout eastern Germany. The consortium will also guarantee 3,000 jobs. Before unification, DWA employed more than 24,000 people.

However, the state government of Saxony, where two DWA plants are located, has already protested against the deal, on the grounds that the Treuhand and the ministry of finance had pledged to keep all the DWA plants operating as part of retaining a small industrial and manufacturing base in the east German states.

Galerias seeks protection

By Tom Burns in Madrid

Galerias Preciados, Spain's second biggest department store chain which was formerly owned by the UK's Mountleigh property group, applied for protection from its creditors over the weekend, citing liabilities of Pta64.3bn ($491m).

A decision to place Galerias in receivership would be likely to lead to its break-up and the dispersal of the chain's 29-strong nationwide network of prime site stores, five of them in Madrid, among domestic and foreign buyers.

Marks & Spencer of the UK, which already operates five stores in Spain and plans to open a further 10, said last month that it was in talks with Galerias with a view to taking over some of its properties.

Among the retail chain's chief creditors are suppliers, which are owed some Pta28bn, and its chief financial backers, Lloyds Bank, Citibank and Barclays, which are understood to be calling in bank loans totalling an estimated Pta18bn.

Galerias, which has more than 7,000 employees, was acquired from Mountleigh by a group of Spanish investors for Pta21.2bn two years ago.

This year, the company's turnover is forecast to drop from Pta80bn to Pta72bn and its losses are likely to be in the region of Pta10bn.

Weakened by a succession of owners in the past 15 years, Galerias was part of the controversial Rumasa private holding of financier José Maria Ruiz Mateos between 1981 and 1983. It was bought by Venezuela's Cisneros group in 1984 after the government expropriated Rumasa to avert the holding's bankruptcy and sold it to Mountleigh in 1987 for Pta30bn.

Poslums lose control of Dylex

By Robert Gibbens in Montreal

The Poslum family has finally lost control of Dylex, the financially troubled Canadian fashion chain. River Road (Canada), the Canadian arm of the US investment fund, becomes Dylex's biggest investor with about 13 per cent of the stock on a fully diluted basis.

The Dylex board decided last week to omit dividends on the A stock for the eighth consecutive quarter. Under the company's by-laws this automatically gave the vote to 69m A shares outstanding, far outweighing the Poslum family's control though the voting B shares.

River Road holds 5m A shares and also convertible debentures. Assuming conversion it would hold a 13% voting interest against the family's 6 per cent.

The board will have a majority of outside directors after being reduced in number from 18 to 12, including two River Road representatives. River Road had fought for omitting dividends, saying Dylex could not afford any pay-out.

Mr Robert Poile, a River Road managing partner who will become a director, said: "Dylex is open to takeover but we want to get it functioning properly and realising its potential."

Dylex reported a third-quarter net loss of C$110m (US$79.1m) or C$1.55 a share, including C$116m of special charges, against a loss of C$2.5m or 4 cents a year ago. Sales fell 2 per cent to C$436m.

The nine-month loss was C$132m or C$1.87 a share, against a loss of C$9.5m or 16 cents on sales of C$1.2bn against C$1.3bn.

Dylex A shares have fallen from a 1989 high of C$12 to 61 cents because of heavy losses from over-expansion and the long recession. The Posluns came under strong criticism for their operating policies.

"The fundamentals and a weak balance sheet have forced their hands as much as River Road," said Mr David Brodie, analyst with Wood Gundy.

River Road's parent is Paloma Group, a large US investment fund.

GAN may sell FFr1bn of bank shares

Groupe des Assurances Nationales (GAN), the state-controlled French insurance company, might put on the market next year shares in Crédit Industriel et Commercial worth around FFr1bn, writes David Buchan in Paris.

The capital injection is to take the form of a transfer to GAN of the state's 7.1 per cent stake in the bank, in which GAN already holds 85.5 per cent. GAN said it needed the extra capital following its FFr846m loss in the first half of this year because of heavy damage insurance claims, poor returns on property investments and lower bond values.

The move will raise GAN's stake in CIC to 92.6 per cent, giving it also all the voting rights in the bank.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 16, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Country	Currency	£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5412.72	3463.00	2203.78	3457.94
Albania	(Lek)	157.07	100.493	63.9509	100.345
Algeria	(Dinar)	66.3337	42.4399	27.0077	42.3776
Andorra	(Fr Franc)	8.4637	5.415	3.4459	5.407
	(Sp Peseta)	206.230	131.945	83.9684	131.751
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		3605.06a	2306.5	1467.8	2303.11
Egypt	(Egyptian £)	5.3155	3.4006	2.1642	3.3958
El Salvador	(Colon)	13.6919	8.76	5.5746	8.7471
Equat'l Guinea	(CFA Fr)	846.370	541.504	344.598	540.708
Estonia	(Kroon)	19.6520	12.5732	8.0013	12.5547
Ethiopia	(Ethiopian Birr)	8.4715	5.42	3.4491	5.412
Falkland Is	(Falk £)	1.00	0.6397	0.4071	0.6386
Faroe Is	(Danish Krone)	9.6305	6.1615	3.921	6.1524
Fiji Is	(Fiji $)	2.2040	1.4101	0.8973	1.408
Finland	(Markka)	7.6023	4.864	3.0953	4.8568
France	(Fr)	8.4637	5.415	3.4459	5.407
Fr. Cty/Africa	(CFA Fr)	846.370	541.504	344.599	540.708
Fr. Guiana	(Local Fr)	8.4637	5.415	3.4459	5.407
Fr. Pacific Is	(CFP Fr)	153.913	98.4728	62.6666	98.3281
Gabon	(CFA Fr)	846.370	541.504	344.598	540.708
Gambia	(Dalasi)	14.9657	9.5749	6.0932	9.5609
Germany	(D-Mark)	2.4561	1.5714	1	1.569
Ghana	(Cedi)	1594.26	1020	649.102	1018.5
Gibraltar	(Gib £)	1.00	0.6397	0.4071	0.6388
Greece	(Drachma)	379.481	242.79	154.506	242.433
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mongolia	(Tugrik)	641.502	410.43	261.187	409.827
Montserrat	(E Carr $)	4.2201	2.7	1.7182	2.696
Morocco	(Dirham)	14.0398	8.9824	5.7162	8.9692
Mozambique	(Metical)	10088.7	6454.7	4107.61	6445.22
Namibia	(S A Rand)	5.5819	3.5712	2.2726	3.566
Nauru Is	(Australian $)	2.0154	1.2894	0.8205	1.2875
Nepal	(Nepalese Rupee)	77.1341	49.35	31.4051	49.2775
Netherlands	(Guilder)	2.7486	1.7585	1.119	1.7559
N'nd Antilles	(A/Guilder)	2.7978	1.79	1.1391	1.7873
New Zealand	(NZ $)	2.4465	1.5649	0.9959	1.5623
Nicaragua	(Gold Cordoba)	11.0492	7.0693	4.4982	7.055
Niger Rep	(CFA Fr)	846.370	541.504	344.598	540.708
Nigeria	(Naira)	34.3860	22	14.0002	21.9676
Norway	(Nor. Krone)	10.7144	6.855	4.3623	6.8449
Oman	(Rial Omani)	0.6018	0.385	0.245	0.3844
Pakistan	(Pak. Rupee)	48.0296	30.7292	19.5553	30.684
Panama	(Balboa)	1.5630	1	0.6363	0.9985
Papua New Guinea	(Kina)	1.8411	1.1779	0.7496	1.1761
Paraguay	(Guarani)	3000.96	1920	1221.84	1917.18
Peru	(New Sol)	3.1831	2.0365	1.2959	2.0335
Philippines	(Peso)	37.6371	24.08	15.3239	24.0446
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Uruguay	(Peso Uruguayo)	8.8310	5.65	3.5955	5.6417
Vanuatu	(Vatu)	174.275	111.5	70.9559	111.336
Vatican	(Lira)	2557.07	1636	1041.11	1633.6
Venezuela	(Bolivar)	265.507	169.87	108.101	169.621
Vietnam	(Dong)	17318.0	11080	7051.02	11063.7
Virgin Is-British	(US $)	1.5630	1	0.6363	0.9985
Virgin Is-US	(US $)	1.5630	1	0.6363	0.9985
Western Samoa	(Tala)	3.9075	2.5	1.5909	2.4963
Yemen (Rep of)	(Rial)	88.30a(2)	56.4939	35.9518	56.4109
Yemen (Rep of)	(Dinar)	0.6884(2)	0.4404	0.2802	0.4397
Yugoslavia	(New Dinar) (1)				
Zaire Rep	(Zaire)	4966.00	3178.5	2022.72	3173.83
Zambia	(Kwacha)	1073.20	686.628	436.953	685.819
Zimbabwe	($)	13.0623	8.3569	5.3184	8.3576

Special Drawing Rights December 15, 1994 United Kingdom 20.930161 United States $1.46133 Germany DM2.29251 Japan Y145.496 European Currency Unit Rates December 16, 1994 United Kingdom 20.778192 United States $1.21647 Germany DM1.91107 Japan Y121.951

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar (v) Floating rate; § CIS applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. (2) Yemeni rates for 29.4.94. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.

Publication dates for The FT Guide to World Currencies over Xmas & the New Year: Dec. 23rd rates in Wednesday Dec. 28th edition. Dec. 30th rates in Saturday Dec. 31st, Monday Jan. 2nd & Tuesday Jan. 3rd editions.

Friday, December 16, 1994

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Tony Jackson in New York

A world without Treasury bonds

Next month, America's newly triumphant Republicans will seek to amend the US constitution to make it illegal for the government to borrow money. The permanently balanced budget is an old dream of the right in more countries than the US, and few give this latest attempt even a fighting chance. But these are strange times, and it pays to allow for contingencies. From an investor's point of view, what would a world without Treasury bonds actually look like?

To begin with, it would not happen all at once. The Republicans' plans are still imprecise, but the general notion seems to be a steady reduction of the budget deficit to zero over the next decade or so. Further borrowing would then be outlawed, and any occasional surpluses would be used to pay off the backlog. This would presumably take several decades again.

At present, the total of US Treasury bonds outstanding is about $3,500bn. Annual issuance, net of redemptions, is about $175bn. These numbers, big as they are, need to be put in context. US Treasuries are the classic international investment, and global savings run at about $3,000bn a year. The annual supply of T-bonds, in fact, soaks up only a small part of the cash looking for a home.

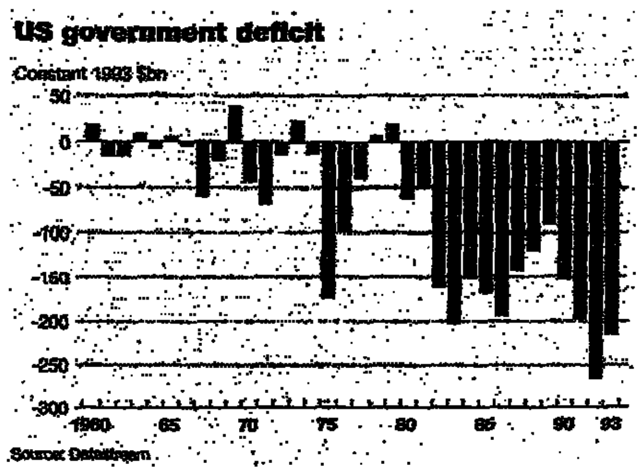
All the same, $3,500bn is a lot of money. If T-bonds did disappear, the market would require them to be replaced by some other instrument as like them as possible. A number of financial institutions have long-term cash liabilities which they need to match with long-term, fixed-rate assets.

The obvious candidates to fill the gap are corporations. At present, most companies use equity and bank finance more often than they would like; logically, fixed-rate bonds would make their long-range planning a lot simpler. But they tend to be crowded out by governments, which can command lower yields. Take the government out of the equation, and the yields on corporate bonds would decline to the level at which long-term savers could persuade corporate borrowers to provide an alternative home for their money.

Much of this would presumably represent new capital for companies, rather than a replacement for old. After all, investors would still demand equities as before, and banks would still need to lend. As Mr John Lipsky, Salomon's chief economist, suggests, the result would be a sharp rise in capital expenditure by corporations, accompanied by a lowering of their required rates of return on investment to reflect the changed cost of capital.

US government deficit

Constant 1993 $bn



Source: Datastream

Total return in local currency to 16/12/94

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.04	0.10	0.10	0.16	0.11
Month	0.45	0.19	0.42	0.45	0.69	0.47
Year	3.75	1.88	5.25	5.63	8.13	5.06
Bonds 3-5 year						
Week	0.27	0.23	-0.13	-0.76	-0.73	0.17
Month	0.08	0.96	0.02	-0.17	-0.20	0.57
Year	-2.58	-1.09	-0.12	-1.38	0.64	-1.19
Bonds 7-10 year						
Week	0.22	0.35	-0.58	-0.87	-1.11	0.38
Month	0.85	1.25	-0.06	0.79	-0.82	1.18
Year	-5.62	-3.54	-4.53	-7.15	-6.70	-5.51
Equities						
Week	1.1	-1.6	-1.3	-1.7	-3.7	-2.1
Month	-2.9	-1.7	-4.2	-2.1	-6.6	-6.7
Year	0.8	3.7	-6.3	-7.7	-1.0	-6.2

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

The resulting investment landscape might look familiar to the historian of the late 19th century. Mr David Hale of Kemper Financial points out that in the decades following the Civil War, the US government punctiliously repaid its borrowings. By the 1890s there was no US public debt left: so British savers, for instance, had to resort to financing US railroads and factories instead, with sometimes patchy results.

How corporations would spend their money this time round is an open question. It seems fair to assume, though, that faced with an abundance of capital, they would continue to substitute capital for labour. There have been huge advances in manufacturing productivity in recent years. Much remains to be done in the service sector.

The next obvious question is how many of the people whose labour is replaced can be usefully re-employed. At this point, what might otherwise seem a wholly benign process turns potentially ugly.

One need not be a Republican hawk to concede that for global savings to be allocated by Adam Smith's invisible hand, rather than by civil servants, is likely to improve economic efficiency. But corporations are not in the business of providing safety nets. What happens if the invisible hand throws people out of work, while at the same time civil servants are deprived of the funds to help the unemployed?

There are other pressures in the same direction. As Mr Lipsky argues, governments – take Italy as an example – will eventually have to face the fact that their unfunded liabilities in pensions and other benefits represent an unsustainable burden on future generations.

The obvious answer is to privatise those liabilities, so that people take upon themselves the whole responsibility for their pensions or healthcare. The result of that would be a sharp rise in personal savings and a corresponding drop in government borrowing.

Mr Hale takes the argument a step further. The whole idea of balancing the budget through a constitutional amendment, he argues, has a sub-plot. One of the biggest burdens on the Federal budget is the vast panoply of tax breaks and subsidies enjoyed by middle class America.

Give the balanced budget constitutional teeth, says Mr Hale, and you have the means to enforce the revolutionary next step: the means testing of social security. Here again, the result is the same: higher saving, less government spending and more money for investment by the corporate sector.

If America moved any distance in this direction, it would not move alone. The natural result of a systemic shift of funds away from government towards corporate investment would be higher productivity and increased competitiveness. In a world of weakening trade barriers, this competitiveness would translate into pressure on America's trading partners to follow suit.

One need not regard the objectives of the Republican right as plausible, or even desirable, to find the trends they represent thought-provoking. Even a move in the direction of a balanced budget, after all, would have sizeable implications. One final investment tip from Mr Hale: three-quarters of the business on the Chicago futures exchanges is in Treasury bond futures. So if you think the Republicans are going to have their wicked way, go short of seats on the Chicago Board of Trade.

COMMODITIES — Richard Mooney

'Death cross' looms for gold

Seasonal spirit among the world's gold traders could be dampened this week by what an analyst describes as an "arithmetical sword of Damocles" hanging over their market.

Mr Andy Smith, of the Union Bank of Switzerland, warns that the market needs to rally soon to avoid being caught in a "death cross", which, according to technical theory, could signal a sharp price fall.

This would occur, he says, if the 200-day moving average was crossed by the 50-day moving average while both were falling.

A similar situation in the silver market in late November augured a sudden 15 per cent fall in that market.

In New York, meanwhile, most gold analysts are expecting the market to remain dull next year, though they say an improving supply-and-demand outlook should sustain the modest firming trend of the past two years.

"The market has been in a better balance this year, and we are looking for growing supply deficits in the years to come," Mr George Milling-Stanley, Lehman Brothers analyst, told the Reuters news agency last week. "This scenario should be supportive of gradually rising prices."

Throughout 1994, the spot price of gold languished within a thin $30 band from $368 to $398 an ounce, far narrower than 1993's $80 range.

● De Beers, the South African group whose London-based Central Selling Organisation accounts for at least 80 per cent of world trade in rough (uncut) diamonds, on Tuesday gives details of CSO diamond sales this year. Although it had record first half sales of $2.58bn, analysts suggest that the CSO eased back sales in the second half, so the 1994 total is not expected to be very different from last year's $4.366bn.

Today marks the formal opening of the London Metal Exchange's new headquarters and trading ring at which Mr Kenneth Clarke, UK Chancellor of the Exchequer, will do the honours.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 18.12.94: Pool purchase price £/MWh	Final Prices for Trading on 20.11.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.61	9.23	9.23
0100	46.50	9.20	13.15
0130	46.50	9.20	13.15
0200	46.50	9.20	13.16
0230	32.21	9.23	9.23
0300	32.21	8.20	8.20
0330	32.21	9.19	9.19
0400	9.61	8.18	8.18
0430	9.09	8.09	8.09
0500	8.92	8.08	8.08
0530	8.89	8.08	8.08
0600	8.83	8.08	8.08
0630	8.83	8.08	8.08
0700	8.83	8.08	8.08
0730	8.80	8.08	8.08
0800	8.80	8.08	8.08
0830	8.80	8.12	8.12
0900	9.01	8.18	8.18
0930	9.08	9.21	9.21
1000	8.70	9.65	13.60
1030	28.40	27.87	31.32
1100	36.79	18.16	22.10
1130	36.79	28.16	32.12
1200	36.79	41.12	45.07
1230	46.71	47.00	50.95
1300	46.71	47.00	50.95
1330	46.71	41.12	45.07
1400	33.77	28.36	32.31
1430	33.58	24.03	27.98
1500	33.58	24.03	27.98
1530	10.02	9.22	9.22
1600	10.06	9.22	9.22
1630	34.80	25.21	29.16
1700	34.81	36.03	39.98
1730	49.00	47.34	51.29
1800	49.00	47.34	51.29
1830	47.08	47.34	51.29
1900	38.43	36.03	39.98
1930	38.43	36.03	39.98
2000	38.43	33.20	37.15
2030	34.80	26.71	30.66
2100	34.80	33.12	37.07
2130	32.93	25.21	29.15
2200	34.51	25.11	29.05
2230	32.93	9.69	13.63
2300	9.15	9.65	13.60
2330	9.08	9.22	9.22
2400	9.09	9.19	9.19

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. [remainder illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 19.12.94: Pool purchase price £/MWh	Final Prices for Trading on 21.11.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.14	9.22	9.22
0100	19.31	9.65	13.15
0130	29.60	9.69	13.19
0200	29.60	9.65	13.15
0230	19.31	9.22	9.22
0300	10.70	9.21	9.21
0330	10.70	9.19	9.19
0400	9.29	8.18	8.18
0430	9.07	8.19	8.19
0500	9.09	8.19	8.19
0530	9.08	8.12	8.12
0600	9.14	8.12	8.12
0630	10.00	9.19	9.19
0700	31.06	9.23	9.23
0730	31.06	35.30	38.80
0800	38.72	45.49	48.99
0830	32.64	45.49	48.99
0900	40.08	45.50	49.00
0930	48.38	37.30	40.81
1000	46.60	45.51	49.02
1030	45.63	45.51	49.02
1100	48.29	45.51	49.02
1130	45.63	45.51	49.02
1200	45.63	45.51	49.02
1230	45.31	36.68	40.19
1300	44.86	36.68	40.18
1330	34.57	33.67	37.17
1400	34.50	32.43	35.93
1430	34.64	32.43	35.93
1500	35.11	32.43	35.93
1530	41.89	32.43	35.94
1600	83.10	32.64	38.22
1630	166.45	63.32	70.84
1700	281.71	95.07	109.89
1730	387.46	105.37	120.45
1800	255.27	95.32	108.63
1830	136.69	64.10	70.98
1900	80.94	49.03	53.27
1930	57.81	42.13	45.53
2000	42.00	38.26	42.79
2030	31.86	38.40	41.90
2100	41.90	35.76	39.26
2130	31.09	35.76	39.26
2200	31.06	29.74	33.24
2230	31.06	31.74	35.24
2300	31.06	9.24	9.24
2330	11.06	9.20	9.20
2400	11.06	9.09	9.09

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. [remainder illegible]

Economic Eye / Martin Wolf

Confronting the old age crisis

Do you expect future generations to pay you a good pension over decades of secure retirement? Do you also believe in Father Christmas?

In no area of public policy is there a greater need for clear-sighted policy-making, since decisions taken today will have effects half a century or more in the future. But be warned. Nowhere is there a greater temptation for governments (and employers) to make deceitful promises for short-term advantage.

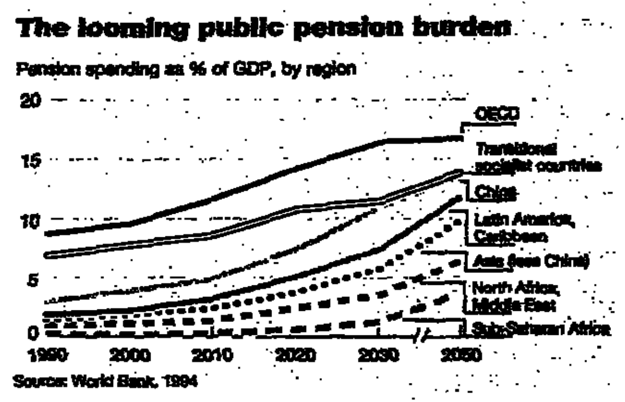
In the UK, the government has just announced a bill to make occupational pensions safer, but has failed to address the conflicts of interest inherent in defined-benefit occupational pension schemes. In the US, a bi-partisan commission has failed to agree on how to contain the burgeoning cost of entitlement programmes. In Italy, the fiscal programme of Mr Silvio Berlusconi has been undermined by the constitutional court's insistence that it pay arrears on certain pensions, going back to 1983.

As a superb, but under-reported World Bank study, published earlier this autumn, shows, all these are but different aspects of the world's rapid ageing.* Nor is this mainly a problem for industrial countries. The number of people over 60 is forecast to rise from half a billion in 1990 to 1.4bn by 2030. Some 29 per cent of that increase is to be in China alone; another 29 per cent in the rest of Asia; and 28 per cent in other developing and transitional countries. Only 14 per cent will be in industrial countries.

The burden of public pensions is set to rise sharply (as is shown in the chart, on the assumption that the current relationship between demography and spending on pensions continues). Today the Italian state is tottering under the burden of paying just over 14 per cent of gross domestic product in pensions, but the average burden of industrial countries is set to be higher than this by 2030. The increased costs will be still more difficult to bear in poor developing countries, such as China. Health spending is also correlated with ageing: in Australia, for example, public health spending per head on people over 65 is six times that on children under 15.

The looming public pension burden

Pension spending as % of GDP, by region



Source: World Bank, 1994

Ageing is, in fact, the world's most important economic challenge. Pension and health spending on the old either is already – or will become – the largest item of public spending virtually everywhere: in Austria and Sweden, it is already close to 20 per cent of GDP. In OECD countries, implicit pension debt exceeds reported public debt by large amounts: in the UK, for example, the ratio of public debt to GDP in 1990 was 35 per cent, while the implicit pension debt was over 150 per cent of GDP. Italian implicit pension debt was almost 250 per cent of GDP, dwarfing the explicit debt ratio of over 100 per cent.

Ageing is important for equality between the sexes, since women are much more likely to be old and poor than men. Meanwhile, heavy payroll taxes, largely to cover pensions, represent an important cause of high levels of unemployment, notably in Europe. In the UK, for example, the payroll tax rate was close to 20 per cent in 1990. In Poland, it was 30 per cent. Pension systems also have implications for savings, while private pension funds have become massive players in capital markets. In 1991, pension fund assets were two thirds of GDP in the US, 70 per cent in Switzerland, 73 per cent in the UK and 76 per cent in the Netherlands.

If any area of public policy requires long-term planning, it is pensions. Unfortunately, governments have set up public pension schemes that generated hugely positive real returns to the first cohorts of beneficiaries, but negative real returns as they mature. In the case of the US, for example, the real return to those retiring 25 years after the establishment of social security was 9 per cent, but this fell to below 4 per cent for those retiring 45 years after. Things will get still worse in the future. One indication of this is the increases in taxes as a share of GDP that will be needed to meet pay-as-you-go pension obligations. In Italy, the worst example, the required tax increase will be 11.9 per cent of GDP.

Governments are absolutely certain to default on their pension obligations, probably by a mixture of higher pension ages, reduced indexation and means testing. The notion that the state can be trusted is just one of several myths punctured by the Bank. It also notes that the anti-poverty case for focusing aid on the old is weak, because families with small children are usually poorest of all; that social security for the old rarely redistributes income to the poor, partly because the rich live longer; and that governments focus quite as much on the short term as individuals, one example being the use of early retirement programmes as a false cure for unemployment, another being how pay-as-you-go programmes concentrated benefits on voters who were mature at the time they were established.

The Bank study argues that there should be three distinct policy objectives: redistribution to the poor; smoothing of consumption; and provision of insurance. It also recommends a multi-pillar system, with the public pillar providing a basic minimum income, to alleviate poverty in old age and insure citizens against a multitude of risks. But relying on the public sector alone is risky. Thus, it also recommends a privately-managed, funded and mandatory system, alongside purely voluntary savings.

It is impossible to do justice to this rich study in one article. But it has a clear lesson: stop believing in Father Christmas and start saving now.

**Averting the Old Age Crisis (New York: Oxford University Press for the World Bank. 1994).*

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 16 1994: US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	THURSDAY DECEMBER 15 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (68)	171.00	2.5	162.20	108.25	139.70	146.69	-10.3	3.93	171.53	162.88	108.76	140.17	146.59	189.15	157.28	157.54
Austria (18)	176.32	-4.7	167.25	111.62	144.05	144.03	-13.5	1.13	175.58	166.71	111.33	143.48	143.40	198.89	167.46	178.91
Belgium (35)	166.26	2.2	157.71	105.25	135.83	132.36	-6.7	4.17	165.23	156.88	104.77	135.02	131.78	177.04	159.64	159.64
Brazil (28)	178.96	-	169.76	113.29	146.20	279.18	-	0.74	176.24	167.33	111.75	144.01	275.41	-	-	-
Canada (103)	127.64	-6.0	121.07	80.80	104.27	128.28	-1.5	2.69	127.54	121.09	80.87	104.22	128.00	145.31	120.54	132.17
Denmark (33)	238.20	-3.6	225.95	150.80	194.60	199.62	-12.6	1.49	239.97	227.84	152.16	196.09	201.17	275.79	234.08	235.77
Finland (24)	175.88	42.6	166.82	111.20	143.50	179.31	19.8	0.78	176.37	167.45	111.88	144.12	180.51	201.41	118.04	118.04
France (102)	163.76	-6.9	155.34	103.67	133.79	139.10	-14.7	3.06	164.16	155.86	104.09	134.14	139.58	185.37	159.34	169.41
Germany (58)	138.86	-1.0	131.72	87.91	113.44	113.44	-10.4	1.83	137.89	130.92	87.43	112.67	112.67	150.40	128.37	135.44
Hong Kong (56)	327.14	-33.1	310.32	207.10	267.26	325.00	-33.0	3.91	329.65	312.99	209.02	269.38	327.49	506.58	305.99	423.80
Ireland (14)	196.96	6.3	186.83	124.69	160.91	180.45	-2.6	3.54	196.60	186.71	124.03	159.84	178.34	216.60	177.56	182.32
Italy (59)	70.78	3.2	67.14	44.81	57.82	86.48	-1.4	1.82	69.65	66.13	44.17	56.92	84.97	97.78	65.87	67.89
Japan (468)	151.86	16.7	144.04	96.13	124.06	96.13	4.7	0.80	151.80	143.94	96.12	123.88	96.12	170.10	127.18	135.36
Malaysia (97)	464.19	-21.5	440.31	293.86	379.23	458.43	-26.3	1.84	465.14	441.63	294.93	380.10	459.26	621.63	430.71	648.15
Mexico (18)	1899.84	-20.4	1802.10	1202.71	1552.07	7191.21	-11.3	1.42	1940.25	1842.16	1230.28	1586.49	7339.89	2647.06	1696.28	2211.70
Netherland (19)	210.98	6.0	200.11	133.55	172.35	169.32	-4.1	3.41	210.34	199.71	133.37	171.89	166.94	223.30	191.28	194.46
New Zealand (14)	71.59	5.4	67.90	45.31	58.48	59.47	-7.7	4.92	71.22	67.62	45.16	58.20	58.95	77.59	62.05	64.99
Norway (23)	202.33	12.6	191.92	128.09	165.29	188.26	2.7	1.76	201.66	191.45	127.86	164.78	187.71	211.74	171.05	171.05
Singapore (44)	364.06	-0.9	345.33	230.47	297.42	245.81	-9.8	1.74	362.46	344.14	229.83	296.19	245.03	401.38	294.68	346.60
South Africa (59)	326.70	22.3	309.90	206.82	266.90	289.13	15.0	2.29	324.13	307.75	205.52	264.87	289.13	342.00	205.55	244.67
Spain (38)	137.85	-1.1	130.76	87.27	112.62	137.79	-8.7	4.14	137.31	130.37	87.07	112.21	137.39	155.79	132.91	135.94
Sweden (36)	228.17	16.2	216.43	144.45	186.41	254.59	6.1	1.57	228.09	216.56	144.63	186.39	254.57	242.81	187.85	187.85
Switzerland (47)	160.93	0.5	152.65	101.88	131.47	132.63	-10.1	1.84	160.87	152.74	102.00	131.46	132.33	176.56	149.91	157.31
Thailand (46)	164.02	-	148.10	97.51	125.83	150.14	-	2.45	150.37	142.77	95.35	122.88	148.59	-	-	-
United Kingdom (204)	191.29	-6.7	181.45	121.10	156.28	181.45	-11.7	4.25	188.63	179.09	119.60	154.14	179.09	214.96	181.11	190.84
USA (514)	187.73	-1.1	178.07	118.85	153.37	187.73	-1.1	2.94	186.39	176.96	118.18	152.31	186.38	196.04	178.86	189.56
Americas (663)	175.19	-	166.17	110.90	143.12	145.75	-	2.86	174.05	165.25	110.36	142.23	144.80	-	-	-
Europe (708)	165.65	-1.7	157.13	104.88	135.32	148.94	-9.8	3.15	164.47	156.16	104.29	134.40	147.98	176.58	160.59	164.96
Nordic (116)	217.34	14.7	206.16	137.59	177.55	207.09	2.6	1.43	217.74	206.73	138.06	177.93	207.82	233.91	181.44	181.44
Pacific Basin (793)	159.55	10.0	151.35	101.01	130.35	105.16	-0.6	1.18	159.38	151.33	101.06	130.25	105.19	176.88	141.04	147.15
Euro-Pacific (1501)	162.01	4.5	153.69	102.56	132.36	122.46	-4.7	2.03	161.42	153.25	102.35	131.90	122.12	175.14	153.52	154.41
North America (617)	184.01	-1.3	174.54	116.49	150.32	183.65	-1.1	2.93	182.73	173.50	116.87	149.32	182.37	192.73	175.87	186.06
Europe Ex. UK (504)	148.26	0.5	140.64	93.86	121.12	129.43	-8.5	2.50	147.80	140.33	93.72	120.78	129.07	158.12	143.39	143.53
Pacific Ex. Japan (325)	235.96	-17.7	223.82	149.38	192.77	208.79	-22.6	3.22	236.47	224.52	149.94	193.24	207.04	298.21	224.17	269.55
World Ex. US (1709)	163.86	4.2	155.43	103.73	133.87	126.02	-4.3	2.04	163.29	155.03	103.54	133.43	125.71	175.86	155.28	156.10
World Ex. UK (2019)	168.75	3.0	160.07	106.83	137.86	141.24	-2.3	2.15	168.10	159.60	106.59	137.38	140.78	179.58	162.28	169.73
World Ex. Japan (1755)	182.61	-2.7	173.21	115.60	149.18	173.73	-6.0	2.88	181.50	172.32	115.08	148.31	172.72	195.30	179.34	193.67
The World Index (2223)	170.74	2.2	161.96	108.09	139.49	144.90	-3.3	2.36	169.62	161.33	107.74	138.85	144.29	180.80	165.72	165.95

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Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 133.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Please note: Constituent changes with effect 2/1/95: Japan Telecom will be included in the indices with a share fraction of 0.33 (Japan). Krisda Mahanakorn changing from (F) prices to (D) prices and CMIC Finance & Securities changing from (D) prices to (F) prices (both Thailand). Market closed 16/12/94: South Africa.

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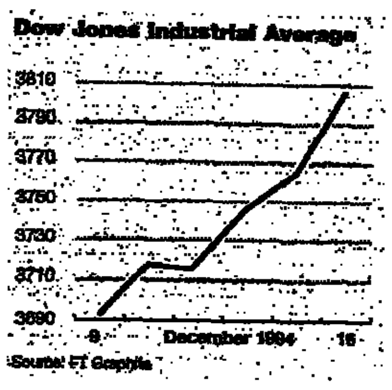
EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Chances look better for a holiday rally



Ever since the Federal Reserve last raised interest rates in November the market has zig-zagged as investors tried to guess whether the it would raise rates again in December. This week *they should produce* an answer after the Fed's open market committee meeting holds its final meeting of the year *tomorrow*.

It was not until the central bank boosted interest rates by 75 basis points on *November 15 that* the market woke up to the reality that the Fed chairman, Mr Alan Greenspan, meant business when he promised to wring inflationary pressures out of the economy.

The following week, stocks took a nose-dive as strong economic data suggested to market players that earnings might be battered by another *rate increase by the year-end. Also* that week, the yield curve representing the spread between two-year notes and the *long bond began to flatten, indicating* that bond market players expected an economic slowdown.

Last week, however, sentiment began to shift as relatively tame increases in consumer and producer price indices suggested that the Fed might wait to see the full effects of this year's six increases before undertaking more tightening. The yield curve, which had tightened to 13 basis points, spread back out to 28 points by the end of the week and the Dow recovered 3 per cent of its value.

Stocks typically get a boost at the end of the year, but until last week analysts were *sceptical about* whether the market could stage its traditional holiday rally.

Now investors will be watching to see if the market's recovery was due to fundamental changes in sentiment or technical factors surrounding last Friday's "triple-witching hour", when options and futures on stock indices expired together in 60 minutes of trading.

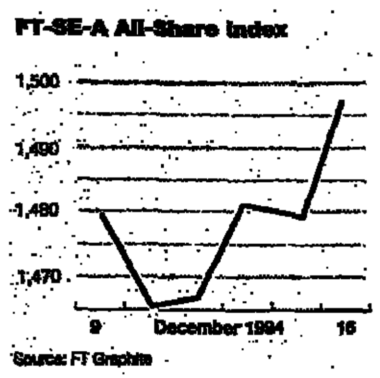
Mr David Shulman, chief equity strategist at Salomon Brothers, believes it was a bit of both. "The consumer and producer price data were good and we got put into overdrive by options," he says.

Data on November durable goods orders due out on Friday should give investors an indication of Fed policy for the coming year, but reaction may be *muted as Friday is the last day of* trading before Christmas and volumes are expected to be low. A consensus of *economists expects orders to increase* by about 1.4 per cent after a 1.0 per cent decrease in October.

On Thursday, the Commerce Department will release its final GDP figure for the third quarter, but the number is not expected to have much of an effect as investors have already seen two preliminary figures. At the end of November, third-quarter GDP growth was *estimated* to be 3.9 per cent, and analysts do not expect any significant change.

LONDON — Steve Thomson

Merger talk brings cheer for Christmas



Until last Thursday afternoon it seemed that the festive season had turned into the open season. At least, that is, as far as the merchant banks and regional electricity stocks were concerned.

Just as the institutions and the market's big trading houses began to wind down for the Christmas break, with no signs of the expected and traditional year-end rally, up popped news of merger talks between S. G. Warburg and Morgan Stanley, closely followed by news that Trafalgar House was considering a bid for Northern Electric.

Those two pieces of news, plus widespread expectations that there could well be other big bids in the market, dispelled much of the recent gloom in UK equities.

With the FT-SE 100 index having fallen below 3,000 – it reached its lowest level for five months early last week – the general consensus around the City's trading desks now is that the market can make some progress as we move into 1995

And in spite of the surprisingly abrupt termination of the merger talks *between Warburg and Morgan, which* drove Warburg shares back to their pre-merger talks level, there is a much better feeling to the equity market.

Activity this week will inevitably slacken as the winding down process really gets under way and there are no really big results scheduled outside the utilities area.

But as a broker at one of the City's blue-blooded securities houses put it last week, the big corporate finance departments in London's merchant banks and stockbroking firms are being put on "red alert" for the new year, which many expect to bring a burst of takeover activity.

It is the utilities area of the market that strategists see as attracting much of the corporate activity. With the government's golden shares in each of the water stocks privatised in 1989 due to disappear at the end of this month and those of the electricity companies, privatised in 1990, due to expire at the end of March 1995, the two sectors are the market's prime candidates to attract the attentions of predators.

Analysts have long suggested that the powerful US utility companies have been eyeing the cash generative electricity companies. Strategic mergers *among various water and electricity* stocks are also said to be on the cards.

There are, however, two not-insignificant hurdles for the market to negotiate this week; Tuesday's Federal Reserve Open Market Committee meeting, which will ponder US monetary policy, and Thursday's Bundesbank Council meeting. The markets are betting on both institutions leaving their interest rates unchanged. But you never know.

Portuguese privatisation

Lisbon to take global path for rest of programme

Portugal is preparing to tap international markets with its first global equity issues as the privatisation programme that has raised more than Es936bn ($5.8bn) over the past five years move beyond the capacity of domestic investors.

A simultaneous offer of 25 per cent of Portugal Telecom in New York, London and Lisbon next May, raising an expected Es240bn, will be the centrepiece of several Portuguese equity issues in 1995 that will test the government's adroitness in approaching international markets.

Global offers of substantial holdings in Cimpor, one of Europe's top 10 cement companies, and Companhia Portuguesa de Produção de Electricidade, a power production utility, are also in the pipeline. But only the Cimpor issue is likely to be completed before a general election due in October 1995 at the latest.

The move into international markets is attracting global banks to a privatisation programme that stimulated little interest when it was limited to domestic issues. Merrill Lynch, the US investment bank, will lead the global issuing consortium for Portugal Telecom. Morgan Stanley is advising on the structure of Cimpor's offer.

Sale of a first tranche of 20 per cent of Cimpor in July provided some important lessons that the Portuguese authorities appear to be assimilating. Although a domestic issue, Cimpor had hoped to attract strong interest from overseas. But foreign investors acquired only a disappointing 32 per cent – although foreign institutions underwrote 47 per cent – in an operation that raised Es39.61bn.

The most damaging drawback was the fixing of the issue price by government decree almost two months before the sale. The market dropped 15 per cent in the interim and investors shied away. The authorities are committed to eliminating this risk from future offers by setting only a price range by decree and delegating the exact fixing for a few days before the operation.

Guaranteeing flexibility for the PT issue, Mr Eurico Cabral da Fonseca, chairman of Comunicações Nacionais, the *state holding company for the* telecommunications sector, said: "The global offer will be subject to the principle of open pricing, giving priority to the level of demand and to establishing an equilibrium price as a trading reference for secondary markets."

Criticisms were also levelled at the government for failing to give a sufficiently authoritative mandate to Cimpor's underwriting banks – led by state-owned Banco Fomento e Exterior in Portugal and overseas by Baring Brothers – to organise the issue efficiently. "Potential investors were being called up by 10 or 12 different banks without any co-ordination," said a London dealer.

This was another valuable lesson. Portugal is now counting on leading global banks to mount efficient book-building systems and co-ordinate complex operations over several markets.

The PT operation is an ambitious first step. One tranche, expected to raise about Es80bn, is be sold in Portugal. An offer of American Depositary Receipts will be made simultaneously in New York, together with an issue in London including separate UK and international tranches.

A further 25 per cent of Cimpor originally due to be issued in New York is now expected to be postponed. "Cimpor would have to be offered by the first week of March to avoid draining liquidity from the market before the PT operation," said an analyst in London. "But the company is unlikely to have its 1994 results and financial holdings sufficiently clarified to be ready by then."

Peter Wise

OTHER MARKETS

MILAN

The market is bracing itself for further fireworks this week when Mr Silvio Berlusconi, the prime minister, faces a confidence vote, probably on Wednesday, that could topple him from power. The market rose above the political fray towards the end of last week, recouping the sharp losses of Monday and enabling the index to close flat on the week.

Dealers also reported that foreign investors were returning as buyers, apparently heeding the advice of a growing bank of strategists that the time is right for the market to turn after falls in recent months.

FRANKFURT

The Bundesbank council holds its last meeting of the year on Thursday, but few analysts expect any news of a change in interest rates.

James Capel says that in spite of still weak retail sales, the strength of third-quarter GDP data and rising capacity utilisation will mitigate against an interest rate cut.

Capel still expects the next move in rates to be up, and the most likely time to be the second quarter of next year. The broker notes that the Bundesbank will also announce its monetary targets for next year, but does not expect any change from the current 4–6 per cent range.

The coming week will *also* be a busy one for economic statistics, with data coming on November M3, producer prices, consumer prices and October's trade figures.

ZURICH

Rising interest rates and the consequent likelihood of reductions in economic growth forecasts by the markets urge caution, says UBS. Nevertheless, in global terms, structural and economic factors point to a relatively good performance for Swiss equities.

UBS says its recent contacts with companies have confirmed the strong momentum of earnings.

"*Profits of the largest* cyclical industrial firms will rise from SFr2.9bn in 1990 to SFr5.8bn in 1996," it says. Aggregate profits of Swiss quoted companies would probably grow at a double-digit rate in Swiss franc terms this year, in 1995 and in 1996, UBS added.

The high share of profits generated in Europe and the Asia Pacific constituted a high degree of resistance to the negative impact of any US policy tightening, said UBS.

"The defensive character of the equity market, which amounted to a disadvantage amid the growth euphoria of the first half of this year will have an increasing positive impact in 1995."

COPENHAGEN

In a week largely bereft of results elsewhere, Denmark will have half-year results today from Danisco, the food and beverages, food ingredients and packaging conglomerate, and Radiometer, the medical measuring equipment maker.

Daiwa Europe notes that Danish shares dropped in November for the fourth month running, but nearly reached stability after more pronounced weakness earlier. "These declines, combined with an upward revision of our earnings projects, bring Denmark into the reasonable range of multiple valuations for 1995 and 1996," Daiwa said.

TOKYO

In a week shortened by a national holiday on Friday to mark the birthday of Emperor Akihito, the market is awaiting today's announcement of the government's economic growth target for the fiscal year to March 31 1996, *writes Robert Patton*.

And at the same time, Mr Yasuo Matsushita, who was installed as governor of the Bank of Japan on Saturday, will hold his first news conference. Some analysts note that given his background, there is some speculation that Mr Matsushita may be more inclined to assist the financial system than his predecessor.

Tomorrow, the Ministry of Finance will present a draft budget for other ministries and agencies for the next fiscal year.

HONG KONG

Share prices are expected to move higher this week, after the Hang Seng index's climb through the 8,000-point level last week, *writes Louise Lucas*.

The index picked up 4.8 per cent last week and closed on Friday at 8,166.39, although turnover remained thin. However, the index is unlikely to breach 8,500 because of the negative view being taken of the property market, which claims an exposure of some 40 per cent on the index.

The sector was not *encouraged by last week's* withdrawal of a building plot at auction in the face of no bids, while fears over China's spiralling inflation have also taken a toll.

Late last week, the market took heart from gains on Wall Street, and a belief that the US Federal Open Market Committee may not raise interest rates tomorrow, but instead wait until the new year.

The bargain hunting and short-covering sparked by last Thursday's recovery are likely to recur if interest rates are not lifted, although brokers continue to warn against seeing any bounce as a convincing recovery.

Compiled by Michael Morgan

COMPANY NEWS: UK

The Emerging Investor / Francis Ghiles

Casablanca puts itself on the map

New share issues, privatisations, the arrival of foreign investment funds, and the reform of the bourse's organisation have completely transformed the Casablanca stock exchange in less than two years. As a result the stock market has established itself as the second largest on the African continent, excluding South Africa, *with a market capitalis*ation of about $5bn.

For Moroccan and foreign *investors, last month's sale of* the state's 66.64 per cent stake in the Société Nationale d'In*vestissement marked a water*shed in the kingdom's privatisation programme.

The sale, for which Pallas Stern, a subsidiary of Swiss Bank Corporation, acted as adviser, netted an estimated Dh2.08bn ($222m), twice the amount raised in July 1993 when the state sold 51 per cent of the CIOR cement company to a French subsidiary of the Swiss Holderbank group.

The increasing involvement of US, UK and French portfolio managers in the Casablanca market reflects an improved perception of the Moroccan economy, now that the IMF-backed adjustment of the 1980s has been completed and the country has resumed repaying its debts after a series of rescheduling agreements.

Over the past 12 months, some $200m of foreign money has come onto the market, about 40 per cent of total volume, *according to* Mr Adil Douiri, co-founder of Casablanca Finance Group, a financial intermediary company set up in 1992. He expects such inflows to reach $500m next year.

According to Upline Securities, a stockbroker which alone *in Morocco provides market* research in corporate finance, the total volume of foreign *investment in Morocco, includ*ing the aforementioned $200m, is set to top $1bn this year.

Trading volume so far in 1994 has reached Dh7bn, which amounts to a 97 per cent *increase* against the first 11 months of 1993. The overall share index has shown a 30 per cent rise so far, while the CFG 25 share index has risen by 36 per cent. However, the bourse does have some very illiquid shares, making the market more attractive for wealthy individuals or funds than individual investors.

The reform of the bourse, approved in September 1993, is still in the process of being implemented, and is based on the French model. It involves converting the market into a limited company in which the stockbrokers are shareholders.

Its aims include better company information – up to now a very opaque area as most companies *are family owned* and operated and accounts are seldom audited by interna*tional auditing firms; more* protection for investors, and a broader range of financial instruments.

Ten best performing stocks

Stock	Country	Friday 16/12/94	Week on week change $	%
Hualon Teijran	Taiwan	1.2912	0.2937	29.44
Telebras	Brazil	0.0450	0.0053	13.40
Finance One	Thailand	14.4137	1.6672	13.08
Philippine National Bank	Philippines	14.0158	1.6199	13.07
Barito Pacific Timber	Indonesia	1.5428	0.1498	10.75
HM Sanpoerna	Indonesia	4.7541	0.4381	10.15
Advanced Info Services	Thailand	13.8563	1.2691	10.08
Technology Resource Industries	Malaysia	3.3732	10.2924	9.49
Bangkok Bank	Thailand	7.8439	0.6740	9.40
SM Prime Holdings	Philippines	0.3261	0.0281	9.36

Source: Baring Securities

The reforms have prompted the emergence of investment funds. The largest include the £39m Morocco Fund, jointly owned by ONA, the kingdom's largest company, and Salomon Brothers; the £15m Interfina Fund, jointly owned by three Moroccan banks, the International Finance Corporation and Spains's Banco Exterior; a $30m fund set up by Framlington, a subsidiary of Crédit Commercial de France and the International Finance Corporation; and another by Morgan Stanley Africa Investment Fund.

ONA has further contributed to the modernisation of the financial system by a capital increase last May which took the form of the largest share issue ever in the country, worth $120m. *ONA allowed for*eign investors to buy into its capital, one third of which is now owned by Morgan Stanley, Lehman Brothers, Paribas, BSN Danone and Assurances Générales de France. George Soros's Quantum Emerging Growth Fund bought a 2 per cent stake, for $40m, last April.

The reasons for the interest Morocco provokes abroad are easy to see. Mr Pierre Lasserre who runs Finacor, the largest money broker in Paris, last year bought a 47.5 per cent stake in Upline Securities, which has just gained a seat on the Casablanca stock exchange. Mr Lasserre sees "many opportunities in Morocco" and was keen to "back a group of energetic and enterprising young Moroccans".

All however is not plain sailing, as the minister for privatisation, Mr Abderrahmane Saaidi, publicly acknowledged after the privatisation of SNI. Demand for the shares of SNI, *a holding company whose* interests include cement, drinks and the financial sector, was very strong, but the manner in which shares was allocated has left a sour taste in the mouths of some investors.

One fifth of all the shares on offer was floated on the Casa*blanca stock exchange during* the first week in November at Dh300 a share and was eight *times subscribed. This came as* little surprise to bankers in Casablanca as SNI shares were *trading* at Dh425 when they were suspended a few days before the offering, but had the advantage, from the government's point of view, of encouraging institutional investors to offer a higher price for the shares.

The authorities allowed the trading of SNI shares to resume before they had completed the sale of the two other tranches, which went to institutional investors. This encouraged people to borrow money and make a quick killing. However, this reinforced critics in their view that the process of privatisation was turning *into* "something of a casino".

Of the two institutional tranches, 35 per cent was sold to *Moroccan institutions*, which cannot onsell the shares for five years, and a further 16 per cent went to Moroccan and foreign institutions. The commission which overseas privatisation operations set the minimum price per share for the two institutional tranches at Dh325, *but successful bidders* bought the shares at Dh425.

SNI shares have since fallen back to Dh400 as many individual buyers who bought them on borrowed money have been forced to realise their gains to pay their creditors back. Further criticism focused on the *role of the agent bank for the* sale, Banque Populaire, whose back room operations were *described by one City institu*tion as a "shambles of red tape".

Faster progress in the broader aim of liberalising the management of Morocco's financial sector is handicapped by three factors: the absence of money and foreign exchange markets and hence the impossibility of currency hedging and the absence of market driven interest rates, for which the IMF has been pressing for two years.

The Banque al Maghrib, the central bank, and leading Moroccan banks are according to observers, dragging their feet because they are comfortably set in their old ways and fearful of change.

For decades, the unwritten contract between the central bank and the banks was that the latter would finance large government deficits and leave the banks to make comfortable margins on their other business. With an estimated $500 to $600m deficit in government *financing written into next* year's finance bill, the banks have good reason to continue *in their old ways*.

News round-up

■ Strategy

Mr Michael Howell, of Baring Securities, has forecast that the current bear market will be in retreat by the middle of next year, but warns that equities worldwide could fall by an additional 10 to 15 per cent over the next few weeks.

There could be two increases in US rates of 50 basis points a time early in the new year, but thereafter a slowdown in the growth of the US economy would underpin sentiment.

He recommends taking an overweight position in southern and eastern Europe, the Indian sub-continent and sub-Saharan Africa.

■ Kenya

The head of the Nairobi bourse, the largest in east Africa, has urged the government to accelerate the sale of companies and broaden *the range of stocks available to* investors, *agencies report*.

The Nairobi stock exchange *currently has a capitalisation* of $2.2bn and is to be opened to foreign investment from January.

■ Bahamas

The Bahamas aims to launch a stock exchange in 1995 with assistance from the Inter-American Development Bank, *Reuter reports*.

The IADB said that the long-term intention was to harmonise the existing four Caribbean stock exchanges, and nine others in Central America. The Bahamas exchange would join ones already operating in Jamaica, Barbados, Trinidad and the Dominican Republic.

Some 10 to 12 government enterprises are expected to be privatised in the coming months in the Bahamas. The former British colony is one of *the world's largest offshore* banking centres.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

Baring Securities emerging markets indices

Index	16/12/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (301)	170.55	+0.37	+0.22	-8.81	-4.91	+2.14	+1.27
Latin America							
Argentina (20)	96.23	+0.04	+0.04	-6.05	-5.91	-19.15	-16.60
Brazil (21)	229.77	+3.63	+1.60	-8.67	-3.64	+90.12	+64.54
Chile (12)	219.92	-4.41	-1.96	-2.12	-0.96	+72.38	+49.06
Mexico (25)	131.33	-6.00	-4.37	-4.57	-3.36	-29.93	-18.56
Peru(16)	944.61	+15.33	+1.65	+9.29	+0.99	+368.52	+63.97
Latin America (94)	162.71	-2.15	-1.30	-5.75	-3.41	+13.47	+9.03
Europe							
Greece (16)	87.01	+0.34	+0.39	+5.07	+6.19	+3.92	+4.72
Portugal (18)	116.95	-1.32	-1.11	-4.37	-3.60	+4.38	+4.30
Turkey (21)	79.26	-4.60	-5.48	-4.16	-4.98	-82.45	-50.98
Europe (55)	98.66	-1.45	-1.45	-1.15	-1.15	-13.57	-12.09
Asia							
Indonesia (26)	131.41	+0.45	+0.34	-18.05	-12.08	-39.63	-23.17
Korea (23)	145.09	+1.57	+1.09	-17.50	-10.76	+35.39	+32.26
Malaysia (23)	203.32	+7.69	+3.93	-25.41	-11.11	-49.73	-19.65
Pakistan (11)	103.36	-4.71	-4.36	-5.24	-4.83	-8.33	-7.46
Philippines (12)	276.98	+9.31	+3.48	-13.18	-4.54	-45.50	-14.11
Thailand (25)	244.65	+9.95	+4.24	-29.61	-10.80	-18.90	-7.17
Taiwan (32)	176.14	+1.95	+1.12	+11.66	+7.09	+22.43	+14.59
Asia (152)	205.34	+5.53	+2.77	-16.59	-7.48	-16.07	-7.26

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES — Philip Gawith

Markets watch Fed and Buba

Meetings of the Federal Open Market Committee tomorrow, and the Bundesbank council on Thursday, offer foreign exchanges their best possibility of excitement in the final days of 1994.

The only other country that *might provide some pre-Christ*mas indigestion is Italy, where the lira remains vulnerable to *further political setbacks*. The government faces possible defeat in a no-confidence vote this week.

The dollar is probably vulnerable to a decision from the Fed to keep rates on hold into the new year. It has risen about 5.5 per cent against the D-Mark, and 3.5 per cent against the yen, since late October.

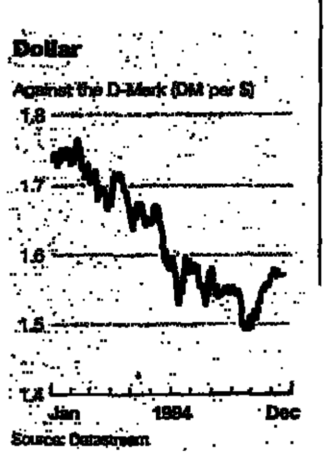
To some extent, this appreciation has been built around the expectation of the Fed moving aggressively to curb inflationary pressures.

Following weaker than expected inflation data last week, however, expectations of the Fed sanctioning *higher rates tomorrow* have receded. Some observers, however, believe the odds on a move are *50:50, citing evi*dence of strong consumer spending as a countervailing argument.

In Germany the balance of opinion overwhelmingly favours the Bundesbank leaving rates unchanged. Nothing, however, should be taken for granted. The German central bank is well known for the pleasure it takes in defying market expectations.

For the statistically minded, *there is a further issue*. High Frequency Economics in New York points out that, on past *evidence, December is the most* likely month for interest rates to be moved. Over the past 25 years, 10 of the 72 adjustments of official rates have been in December; nearly twice what could be expected.

The prospect of the Berlusconi government falling in Italy has pushed the lira to record lows recently. The confidence vote will provide markets with more to chew on. The markets appear to have discounted most bad news, but the lira could weaken further if a political hiatus threatens the *normal course of government*.



WORLD BOND MARKETS: This Week

NEW YORK
Tony Jackson

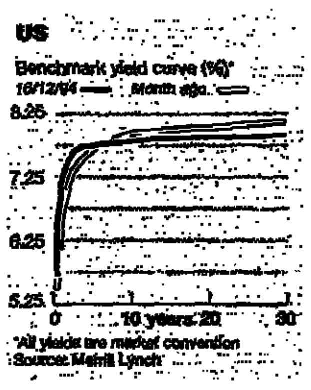
There will be an element of nervousness in the bond market tomorrow, as the Federal Open Market Committee meets to discuss policy.

Although further tightening is on the cards, few expect the Fed to move only a month after its last unexpectedly sharp increase. But as pessimists point out, there is still no indication of final demand in the economy slowing down. Therefore, the longer the Fed leaves it, the more likely it is that the next rise will be another big one.

The main economic news this week starts tomorrow with the release of October's trade figures. Wednesday brings the first projections from corporations of their capital expenditure next year, along with actual spending in this year's third quarter.

On Thursday comes the final figure for third-quarter GDP growth (presumed to remain close to the preliminary figure of 3.9 per cent) and the implicit price deflator, which should be close to 2 per cent. Friday brings November durable goods orders and personal income and expenditure.

While consumer spending is of vital importance, the November figures scarcely matter. In the week before Christmas, what matters is what shoppers are doing. The media say the news for the bond market is not encouraging: US shoppers are out in force and spending hard.



*All yields are market convention
Source: Merrill Lynch

LONDON
Philip Coggan

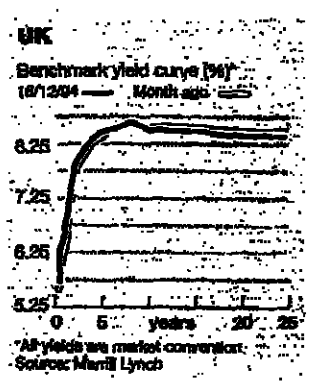
Trading volumes are likely to be sluggish in the week leading up to Christmas as dealers indulge in seasonal celebrations.

The economic statistics on offer are unlikely to disturb the festivities; the broad measure of money supply (M4) and the non-European Union trade figures rarely move the market, and Thursday's third-quarter GDP figure is expected to be unchanged from the last estimate.

More significant could be the publication, on Wednesday, of the minutes of the November 2 meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England. With the market expecting a further base rate rise in the first quarter of 1995, the governor's views on inflationary indicators will be closely watched.

Attention will also be focused abroad, and in particular on the US Federal Reserve's open market committee meeting in Washington tomorrow.

Ms Katy Peters, senior economist at Daiwa Europe, thinks the Fed will not tighten and the Bundesbank's M3 money supply target will indicate little need for a further rise in German rates. In such circumstances, and given her view that a lot of bad news on interest rates is already priced into the market, she thinks there is scope for short gilts to rally.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT
Andrew Fisher

Avid Bundesbank watchers will be keeping a close eye on this week's meeting of the German central bank's council – at which the money supply target for 1995 will be set – to see what clues emerge about monetary policy.

The Bundesbank has made no interest rate changes since May and economists are divided as to when rates will start heading upwards again.

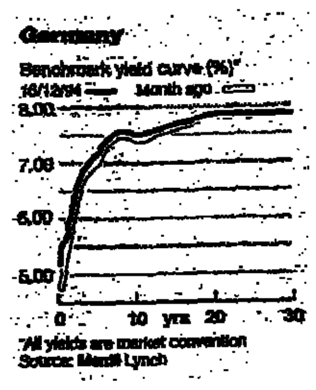
This year, M3 has soared alarmingly before recently falling back to within striking distance of the target range of 4 per cent to 6 per cent. The 1995 target is expected to be about the same.

For the moment, the Bundesbank is keeping the markets calm, knowing how volatile they have been as bond market rates have risen in the wake of US anti-inflationary moves.

Next year is likely to be a lot calmer for the bond market than 1994 has been. The 10-year bund yield started the year at 5.55 per cent, its lowest since 1986, and reached a high of 7.8 per cent in October, from which it has eased slightly.

Commerzbank expects the 1995 level to average 6.8 per cent, with a similar level for 1996.

The favourable inflation trend and the easing in M3 provide a stable basis for the bond market, the bank argues, with domestic investors expected to become more enthusiastic.



*All yields are market convention
Source: Merrill Lynch

TOKYO
Robert Patton

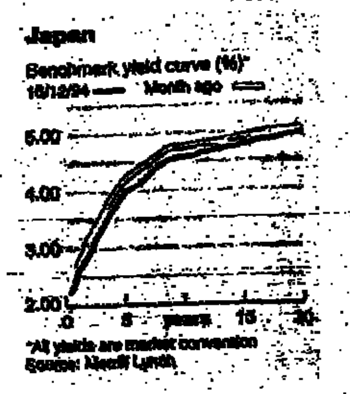
Bond prices in Tokyo ended the week little changed in a market that has become directionless as traders await developments. The benchmark 10-year government bond ended the week at 96.84 yielding 4.595 per cent, compared with 4.62 per cent a week earlier. On Friday, bonds moved in the opposite direction to stocks, rising in early trading, then sliding back towards the close.

The easy credit stance of the Bank of Japan continues to mitigate against higher interest rates in the near term. By the end of the week, the BoJ had injected Y1,100bn into the money market, including Y300bn in loans to commercial banks.

The total, which was on the high side of market expectations, included about Y190bn in three-month CDs issued at 2.34 per cent, which found a ready market with short-term fund managers who see little chance of a rate rise.

On Friday, outgoing BoJ governor Mr Yasushi Mieno called for the injection of sufficient liquidity into the economy for banks to trade the non-performing loans that are the legacy of the bursting of the "bubble economy".

Mr Mieno also said Japan's current account surplus must be reduced by correcting the imbalance between savings and investment in Japan. Mr Yasuo Matsushita, his successor, is expected to tread much the same path.



*All yields are market convention
Source: Merrill Lynch

Capital & Credit

Uncertainty remains over Nordic bonds

For investors in the Nordic government bond markets, this has been a year of uncertainties.

They have had to deal with a general election in Sweden, EU referenda in Norway, Sweden and Finland, and recovery from recession in all four countries that has left investors extremely nervous about whether there will be a new surge in inflation.

What is more, these uncertainties have arisen against a background of a spectacular deterioration in bond markets worldwide that has had a particularly severe impact on the Nordic region.

However, the most dominant concern – for investors in the Swedish and Finnish markets, at least – has been the state of the countries' public finances.

Uncertainty has revolved around the ability and willingness of the Swedish authorities, in particular, to bring under control a budget deficit expected to reach 13 per cent of gross national product in the current year and a national debt that is now approaching 90 per cent of GNP.

This uncertainty remains. Although yields in Sweden – and in the other Nordic countries – have fallen since the autumn as a relative calm has settled on international bond markets generally, Scandinavian investors – and in Sweden's bond market in particular – remain extremely wary.

The election in September in Sweden ushered in a new government, under Social Democrat Mr Ingvar Carlsson, which immediately signalled its intent to be strict on public spending.

That, and Sweden's decision to join the EU, which many think will impose an anti-inflation discipline on the government, provided a boost for the Swedish market.

Nevertheless, investors will be watching next month's budget closely for an indication of how strict the government really intends to be on public spending – there was a wobble in the bond market last week at talk that taxes may be raised instead of spending cut.

"It was no big deal [the rumour was that the government would raise a tax on bank profits instead of cutting public consumption] but the market is very sensitive to any sign that the government is not keen on cutting spending at the moment," said Mr Niels Christensen, Nordic analyst at Technical Data in London.

Another uncertainty facing Sweden is the possibility that the country's credit rating may be downgraded.

In October, Moody's Investors Service, the US credit rating agency, warned that the country's Aa2 rating had been put on review for possible downgrade because of its rising public sector debt. If this happens, it could raise significantly Sweden's borrowing costs and lead to a jump in yields.

Another, more longer-term risk is inflation. With expected GNP growth of 3.4 per cent in 1995, there are already some signs of significant cost pressures, with producer prices growing at around 6 per cent.

Inflation is also the main risk to the Danish bond market. The "economic fundamentals" look extremely favourable for Denmark – inflation is currently low at around 2.0 per cent, it has a current account surplus and its finances are in a healthy state.

Denmark is ahead of most other European countries in the economic cycle and growth is expected to peak this year, before declining gradually in 1995.

However, although inflation is currently low, some analysts doubt the authorities' willingness to tighten policy to head off future inflation.

"Unlike the UK, which is at a similar stage in the economic cycle, Denmark has interest rates on hold and has only begun to gradually reverse the stimulative fiscal policy it embarked upon in 1993-94," said Mr Darren Cullen, Scandinavia economist at Salomon Brothers in London. "Many are bullish about Denmark, but until it signals a stronger anti-inflationary stance I'm not convinced," he said.

The prospects for Norway's government bond market are perhaps brighter, although it is the smallest and least liquid of the Scandinavian markets and the one which has least interest for international investors.

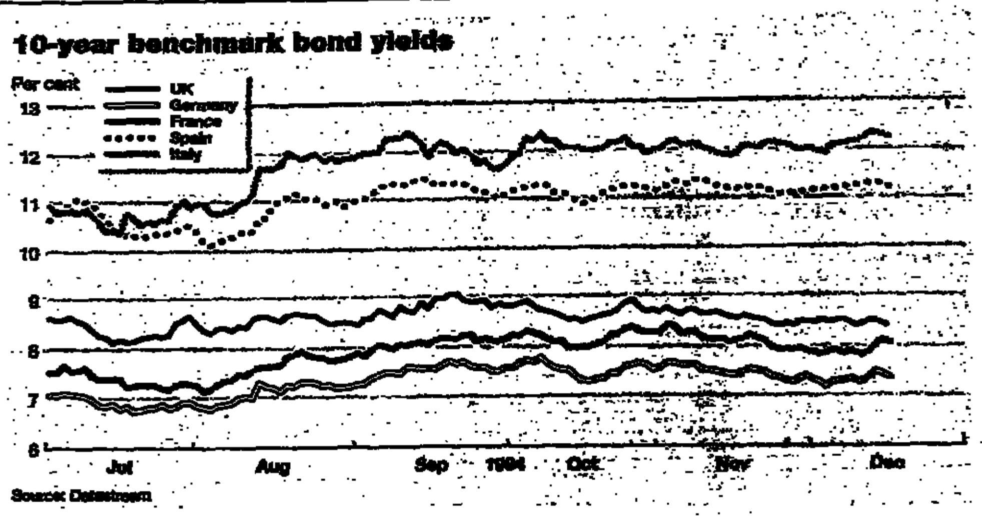
Certainly, its fundamentals – a current account surplus and subdued inflation – are supportive, and since the decision at the referendum not to join the EU, there has been a dramatic rally in the Norwegian bond market – the 10-year yield has now fallen by more than one percentage point since the peak in September and the yield spread against Germany has narrowed significantly.

"This reaction to the 'no' vote is perhaps due to the fact that Norway was likely to be a net contributor to the EU budget so its fiscal position has been helped by the decision," said Mr Christensen. He expects the yield spread against Germany to narrow further next year.

The Finnish bond market has, to a large extent, taken its lead from Sweden and it shares many of Sweden's problems – a large budget deficit and fears that inflation could take off with the economy growing strongly.

Graham Bowley

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.75	1.75	4.50	5.40†	7.50	6.25‡
Overnight	5.85	2.22	4.85	[illegible]	[illegible]	4.63
Three month	5.79	2.31	5.35	[illegible]	[illegible]	6.25
One year	7.13	2.59	5.75	[illegible]	[illegible]	7.69
Five year	7.76	3.88	7.15	[illegible]	[illegible]	8.47
Ten year	7.81	4.60	7.47	[illegible]	[illegible]	8.52

† France-Repo rate. ‡ UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99-16	100-01	+0-05	[illegible]	[illegible]	[illegible]	43,268
Mar	99-12	99-14	+0-05	[illegible]	[illegible]	[illegible]	357,163
Jun	98-27	99-01	+0-04	[illegible]	[illegible]	610	12,618

Junk bonds

Investors still enjoy positive returns

Junk bonds – corporate debt issued in the US and rated below investment grade – lost more than 2 per cent of their value in November, according to figures published last week by Moody's Investors Service, the credit rating agency.

Noting an increased rate of default and rising yield spreads, Moody's said the decline was the second largest since the inception of its speculative grade index in February 1991.

The news will reinforce the views of critics who see dabbling in the $290bn junk bond market as tantamount to wild and dangerous speculation – but the market's recent evolution and performance defies this kind of judgment.

Certainly, prices of junk bonds have fallen this year, principally because of the 2.5 per cent increase in US interest rates and investors' expectations of higher inflation.

The Moody's index – made up of 553 bonds – fell by 2.28 per cent in November bringing the cumulative decline for 1993 as a whole to 9.82 per cent.

However price declines have been mitigated by relatively large coupon payments and tightening credit spreads.

Overall – when the effect of interest payments is included – junk bonds have offered positive returns of 0.35 per cent over the year to November, according to Moody's.

Between May and October investors saw six consecutive months of positive overall returns. "In this rout for the bond market, returns are still positive," says Mr Lea Carty, an economist with Moody's in New York.

Even in November, investors in bonds rated B1 and Ba1 – the upper end of Moody's speculative grade spectrum equivalent to B plus and BB plus ratings issued by Standard & Poor's, the other major rating agency – earned positive total returns – of 0.49 per cent and 0.47 per cent respectively.

Taking a longer-term view, junk bonds have also done surprisingly well. Many corporate issuers have been performing well as the US economy pulled out of recession.

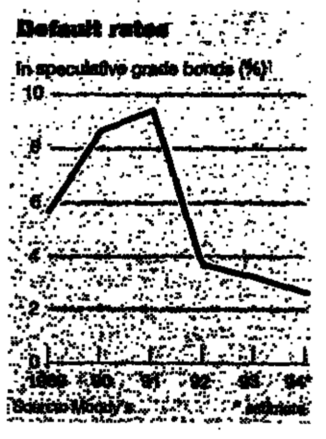
In price terms, junk bonds have outperformed US Treasuries, especially since 1992, and spreads over Treasuries tightened sharply in 1993 and 1994.

Moody's B3s (equivalent to S&P's B minus) were trading at 672 basis points over Treasuries in February 1993, narrowed to 488 basis points over in February this year and 431 basis points since November, for example.

Moody's Ba1 bonds, the highest rated non-investment grade, traded at a spread over Treasuries of 306 points in February 1992, falling to 260 points over a year later and 182 over in February 1994. At the end of last month Ba1 bonds had narrowed further to 175 points.

The improvement has also been reflected in a gradual decline in the rate of default. Default rates reached 9.5 per cent in 1991 before falling to 3.1 per cent in 1993. In June 1994, based on Moody's trailing 12-month issuer-based rate, rates fell to a decade low of 1.44 per cent.

Default rates



Source: Moody's

Mr Anton Simon, head of high yield investments at the United Bank of Kuwait in London, says this year's decline in prices has been less marked than many would have expected, partially because the market has become both deeper and more liquid as a result of a change in the profile of investors, following the entry of bigger institutional investors into the market since 1990.

Some 30 per cent of the high yield market is owned by mutual funds, 25 per cent by US insurance companies, 12 per cent by US pension funds and 10 per cent by investment grade and equity investors, with only 3 per cent of the market owned by foreign investors, according to figures cited by Mr Simon.

"In the past, the high yields would have been clobbered in this kind of market," he says. "People just saw it as dirty asset class – when they felt nervous they just got rid of it."

Mr Simon says the level of research and understanding of the market has also increased and there is growing receptivity among institutions to arguments that high yield corporate bonds should be treated as a separate asset class.

In a report published earlier this year, Pennsylvania-based SEI Capital Markets Research noted low levels of correlation in the performance with either US equities, investment grade bonds or Treasury bonds.

SEI said investors should hold between 10 and 30 per cent of their fixed income portfolios in high yield bonds. It maintained that a portfolio of fixed income becomes more efficient when high yield bonds are admitted – the efficiency stemming from greater return and lower volatility.

SEI added that "risks can be minimised through diversification among a range of high yield issues".

Enthusiasts also point out the importance of carefully monitoring the credit quality of issuers, with the investment focus much more akin to that taken by a manager of equity rather than fixed income. "Never compromise on credit vigilance," says Mr Simon.

As signs of an economic slowdown in the US build up, that looks like essential advice for investors tempted by the potential returns offered by the sector.

Richard Lapper

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Minnesota Mining & Manufact.	200	Jan.1997	7.75	100.00R	7.750	+9(7¼%-96)	JP Morgan Securities
Banco Boavista	50	Dec.1997	12.00§	98.75R	12.51	+480(7⅞%-97)	ABN Amro Bank
Sakura Finance Cayman(a1)‡	370	Dec.2004	(a3)	100.00	-	-	Sakura Finance Intl.
Sakura Fin. Cayman(a2)★‡	130	Dec.2004	(a3)	100.00	-	-	Sakura Finance Intl.
SANDS Notes No.1(b)	272	Dec.1998	(b1)	99.80	-	-	HSBC Markets
McDonalds Corp.	200	Jan.1997	8.00	99.987R	8.019	+18(7¼%-96)	Morgan Stanley Intl.
Islamic Republic of Pakistan	150	Dec.1999	11.50§	99.684R	11.58	+385(WI 5yr)	Bear Stearns Intl.
CBPO	100	Dec.1997	12.50§	99.50R	12.71	+800(7⅞%-97)	Lehman Brothers Intl.
Bco.Bamerindus do Brasil(d)‡	250	Dec.1997	(d1)	99.18R	-	-	Swiss Bank Corp.
EMPECSA	75	Dec.1999	10⅞§	99.69R	10.97	+325(WI 5yr)	Citibank International
Klabin(e)	60	Dec.2002	(e1)§	99.50	12.24	+460(7⅞%-97)	Citibank/ JP Morgan
Serrana de Mineracao(f)	50	Dec.2002	13⅜§	99.065R	13.45	+570(WI 5yr)	Merrill Lynch Intl.
Banco Bandeirantes	50	Dec.1997	12.08§	99.681R	12.13	+446(7⅞%-97)	West Merchant Bank
Guadalajara Tepic(i)	300	Jul.2005	12.75§	99.35R	12⅞	+604(6¾%-05)	CS First Boston
YEN							
Republic of Argentina★	20bn	Dec.1997	6.00	100.00	6.000	-	Nomura International
Sakura Finance Cay.(c1)★‡	30bn	Mar.2005	(c3)	100.00	-	-	Sakura Fin./ Salomon
Sakura Finance Cay.(c2)★‡	20bn	Mar.2005	(c3)	100.00	-	-	Nomura/ Sakura Fin.
Republic of Austria(g)★	60bn	Dec.2004	4.75	100.22R	4.72	+11(4½%-04)	Daiwa/ LTCB Intl.
Republic of Austria★	60bn	Jan.2001	4.40	100.05R	4.390	+2(6.9%-00)	Daiwa/ LTCB Intl.
STERLING							
CLIPS No.1(g)‡	123.75	Dec.2008	(g1)	99.90R	-	-	Goldman Sachs Intl.
UK Roads(No.1)(h)	36.586	Apr.2025	9.10§	100.025R	9.100	+78(8¾%-17)	Nomura International
D-MARKS							
Dresdner Finance Netherlands	300	Jan.2000	7.25	101.50	6.885	-	Dresdner Bank
FRENCH FRANCS							
Republic of Argentina	1bn	Jan.1998	9.875	99.65R	10.02	+250(8½%-97)	Société Générale
ITALIAN LIRE							
Deutsche Bank Finance	200bn	Jan.1998	11.00	101.325	10.46	-	Deutsche Bank London
AUSTRALIAN DOLLARS							
World Bank	100	Jan.1998	10.125	101.425	9.568	-	CBA
New Sth.Wales Treas.Corp.★	100	Dec.1997	4.50§	87.371	9.431	-	Nomura International
Treasury Corp.of Victoria(a)	100	Dec.1998	5.00	92.425	-	-	Nikko Europe
New Sth.Wales Treas.Corp.★	100	Dec.1997	4.50§	86.66	9.725	-	Nomura International
SWEDISH KRONOR							
Sudwestdeutsche LB Cl(j)	450	Feb.1999	10.625	99.971R	10.62	+29(11%-99)	Merrill Lynch Intl.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Floating rate note. ★Unlisted. §Semi-annual coupon and yield. R: fixed re-offer price. [illegible]

هكذا من الأصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 16 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 16 / Frs.)

[illegible]

DENMARK (Dec 16 / Kr)

[illegible]

FINLAND (Dec 16 / Mka)

[illegible]

FRANCE (Dec 16 / Frs.)

[illegible]

GERMANY (Dec 16 / Dm.)

[illegible]

ITALY (Dec 16 / Lire)

[illegible]

NETHERLANDS (Dec 16 / Fls.)

[illegible]

NORWAY (Dec 16 / Kroner)

[illegible]

SPAIN (Dec 16 / Pts.)

[illegible]

SWEDEN (Dec 16 / Kronor)

[illegible]

SWITZERLAND (Dec 16 / Frs.)

[illegible]

PACIFIC

JAPAN (Dec 16 / Yen)

[illegible]

HONG KONG (Dec 16 / H.K.$)

[illegible]

MALAYSIA (Dec 16 / MYR)

[illegible]

SINGAPORE (Dec 16 / S$)

[illegible]

AUSTRALIA (Dec 16 / Aust$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Dec 16 / Can $)

4 pm close

[illegible]

MONTREAL (Dec 16 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Dec 15 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal [illegible]. [illegible] Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, December 16, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	6.4m	355	-8	Keio Teito	2.8m	572	-2
Mitsubishi Heavy	3.8m	728*	+5	Toshiba	2.4m	699	-1
Nissan Motor	3.5m	816	+6	Sumitomo Osaka	2.3m	464	+9
Konica	3.2m	800	+11	Sakai Ovex	2.1m	638	+18
Kawasaki Steel	3.0m	400	-5	Oki Electric	1.8m	691	

INDICES

	Dec 16	Dec 15	Dec 14	1994 High		1994 Low	
Argentina							
General (29/12/77)	17760.48	17593.4†	17591.77	25470.40	16/2	16752.81	28/11
Australia							
All Ordinaries(1/1/80)	1897.0	1895.0	1863.8	2340.60	3/2	1842.00	12/12
All Mining(1/1/80)	907.0	901.5	881.8	1136.10	3/2	878.10	12/12
Austria							
Credit Aktien(30/12/84)	387.16	387.32	386.17	488.66	2/2	376.94	25/10
Traded Index(2/1/91)	1027.22	1027.23	1026.83	1222.25	1/2	1011.38	6/6
Belgium							
BEL20 (1/1/91)	1394.44	1383.83	1385.86	1542.66	9/2	1336.39	7/10
Brazil							
Bovespa (29/12/83)	49177.0	48427.0	48769.0	55110.00	13/9	3800.90	3/1
Canada							
Metals Minls♦(1975)	4092.35	4014.54	3930.53	4278.82	20/10	3258.08	20/4
Composite♦ (1975)	4118.00	4111.70	4078.80	4808.99	23/3	3939.90	24/6
Portfolio§§ (4/1/83)	2011.22	2008.36	1990.03	2182.69	1/2	1868.48	28/6
Chile							
IPGA Gen (31/12/80)	5528.7	5542.7	5571.3	5764.40	21/11	3881.20	4/4
Denmark							
CopenhagenSE(3/1/83)	336.92	336.15	336.95	416.79	2/2	335.75	13/12
Finland							
HEX General(28/12/90)	1808.8	1818.6	1805.6	1972.60	4/2	1601.19	3/1
France							
SBF 250 (31/12/90)	1268.23	1270.11	1270.93	1585.20	2/2	1227.88	25/10
CAC 40(31/12/87)	1924.16	1931.10	1930.02	2355.93	2/2	1824.42	25/10
Germany							
FAZ Aktien(31/12/58)	774.16	768.88	763.08	859.27	16/5	742.04	5/10
Commerzbank(1/12/53)	2210.7	2195.8	2176.7	2468.59	2/5	2116.30	5/10
DAX (30/12/87)‡	2070.06	2052.59	2024.77	2271.11	16/5	1960.59	7/10
Greece							
Athens SE(31/12/80)	865.30	875.93	882.16	1194.58	18/1	804.37	22/11
Hong Kong							
Hang Seng(31/7/64)	8166.39	8259.56	7997.35	12201.09	4/1	7707.78	12/12
India							
BSE Sens.(1979)	3943.65	3903.89	3961.47	4628.57	12/9	3454.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	458.78	458.93	453.37	612.88	5/1	447.04	13/12
Ireland							
ISEQ Overall(4/1/88)	1785.75	1776.05	1774.15	2082.16	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	605.77	591.83	582.91	617.17	10/5	581.64	13/12
MIB General (4/1/94)	981.0	959.0	944.0	1318.00	10/5	942.90	13/12
Japan							
Nikkei 225 (16/5/49)	19153.43	19121.12	18931.48	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	279.04	279.08	276.79	311.71	13/6	268.22	4/1
Topix (4/1/68)	1508.60	1508.79	1498.04	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2049.78	2057.22	2051.42	2542.65	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	946.60	950.77	937.15	1314.46	5/1	895.77	12/12

	Dec 16	Dec 15	Dec 14	1994 High		1994 Low	
Mexico							
IPC (Nov 1978)	(u)	2378.66	2401.55	2881.17	8/2	1957.33	20/4
Netherlands							
CBS TtlRtnGen(End 83)	436.8	436.0	434.6	464.90	31/1	408.30	21/6
CBS All Shr (End 83)	274.1	273.5	272.7	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	1924.86	1908.22	1895.66	2438.64	3/2	1878.08	12/12
Norway							
Oslo SE(Ind)(2/1/83)	1093.28	1093.44	1091.27	1211.10	28/2	980.91	21/6
Philippines							
Manila Comp (2/1/85)	2708.99	2679.86	2617.90	3308.37	4/1	2307.33	9/3
Portugal							
BTA (1977)	2935.8	2933.0	2948.3	3226.60	18/2	2812.80	20/6
Singapore							
SES All-S'pore(2/4/75)	526.72	527.54	514.69	641.61	4/1	506.84	13/12
South Africa							
JSE Gold (28/9/78)	(c)	1931.8♥	1891.9	2334.08	7/9	1749.99	14/2
JSE Indl. (28/9/78)	(c)	6827.3♥	6753.7	6884.30	22/11	5448.69	19/1
South Korea							
KoreaCmpEx(4/1/80)**	1036.76	1027.99	1026.61	1138.75	8/11	855.37	2/4
Spain							
Madrid SE (30/12/85)	297.95	297.43	299.34	368.31	31/1	288.88	26/10
Sweden							
AffarsvarldsGen (1/2/37)	1470.00	1471.60	1463.80	1803.90	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1226.73	1224.19	1216.25	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)	918.40	916.80	911.98	1083.29	31/1	878.57	27/10
Taiwan							
WeightedPr.(30/6/66)**	6895.60	6823.13	6881.90	7191.12	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1336.47	1310.00	1280.07	1753.73	4/1	1196.59	4/4
Turkey							
Istanbul Comp.(Jan 1986)	27874.7	27825.4	27941.5	29145.19	2/12	12960.70	24/3
WORLD							
MS Capital Int (1/1/70)§	607.7*	606.1	603.4	649.90	2/11	581.60	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1323.65	1326.74	1316.82	1540.19	31/1	1286.46	5/10
Euro Top-100 (26/6/90)	1170.57	1163.59	1157.93	1311.01	2/2	1138.46	5/10
JCapalOrgns (31/12/88)	(u)	300.06	292.39	396.19	5/1	285.49	12/12
Barings Emerg.(7/1/92)	170.55	171.47	169.24	191.79	28/9	141.55	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	1948.0	1934.0	-3.0	1949.0	1931.0	14,141	30,023
Jan	1954.5	1942.5	-3.0	1955.5	1940.0	1,598	4,653
964	1964.5	1952.2	-3.0	1964.5	1964.5	1,349	508

Open interest figures for previous day.

** Sat Dec 10: Taiwan Weighted Price 6722.51; Korea Comp Ex 1033.27. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 16 - 2069.90 +15.67

US INDICES

Dow Jones	Dec 16	Dec 15	Dec 14	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3807.19	3765.47	3749.29	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	94.39	94.46	94.43	105.61 (21/1)	93.61 (28/11)	109.77 (15/10/93)	54.99 (1/10/81)
Transport	1416.14	1412.41	1394.02	1862.29 (2/2)	1371.89 (13/12)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	182.24	181.32	182.44	227.86 (3/1)	173.94 (22/11)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3817.95 (3794.07) Low 3758.07 (3728.13) (Theoretical♦)
Day's high 3807.92 (3775.90) Low 3765.47 (3743.60) (Actual♦)

Standard and Poors	Dec 16	Dec 15	Dec 14	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	458.80	455.34	454.97	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	544.70	540.03	539.85	553.10 (28/10)	510.05 (21/4)	553.10 (28/10/94)	3.62 (21/6/32)
Financial	41.95	41.78	41.78	46.94 (14/6)	39.87 (22/11)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	250.64	248.96	248.33	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	426.23	426.02	423.07	487.89 (2/2)	420.23 (13/12)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	720.07	730.68	725.67	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Dec 9	Dec 2	Nov 25	Year ago
Dow Jones Ind. Div. Yield	2.88	2.84	2.87	2.68
	Dec 14	Dec 7	Nov 30	Year ago
S & P Ind. Div. yield	2.47	2.48	2.46	2.45
S & P Ind. P/E ratio	18.40	18.29	18.42	27.16

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	458.55	461.80	+3.15	462.50	458.15	37,183	75,892
Mar	464.00	466.15	+3.15	466.70	464.00	99,228	201,916
Jun	470.00	471.20	+3.15	471.80	470.00	361	6,813

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Wal-Mart	9,358,800	22¼	+⅛
Gen Elec	7,835,700	50	+1
RJR Nabisco	6,528,900	6⅛	-⅛
AT&T	5,630,000	51½	+⅛
Hanson	5,509,800	17⅞	—
Coca Cola	5,249,800	51⅛	+⅝
Merck	5,188,200	38¼	+½
Exxon	4,533,900	61¼	+1⅛
Ford Motor	4,341,900	26⅝	+¼
Telefonos	4,282,200	50	-⅞

■ TRADING ACTIVITY

● Volume (million)	Dec 16	Dec 15	Dec 14
New York SE	478.701	332.780	354.983
Amex	21.715	18.300	16.062
NASDAQ	(u)	322.575	304.585
NYSE			
Issues Traded	2,918	2,937	2,954
Rises	1,338	1,508	1,661
Falls	943	798	751
Unchanged	637	631	652
New Highs	24	19	21
New Lows	53	100	132

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2807	+0.0203	813 - 001	17.3026	17.2525	17.2789	1.0	17.2363	1.3	-	-	115.4
Belgium	(BFr)	50.4693	-0.028	375 - 011	50.5650	50.4330	50.4943	-0.6	50.3643	0.8	49.8043	1.3	117.1
Denmark	(DKr)	9.6305	+0.0062	250 - 359	9.6438	9.6181	9.6271	0.4	9.6347	-0.2	9.6012	0.3	116.7
Finland	(FM)	7.6025	-0.0122	922 - 127	7.6250	7.5920	-	-	-	-	-	-	87.8
France	(FFr)	8.4637	-0.0002	594 - 679	8.4704	8.4531	8.4604	0.5	8.4574	0.3	8.4113	0.6	109.6
Germany	(DM)	2.4561	+0.0019	547 - 574	2.4591	2.4531	2.455	0.5	2.4509	0.8	2.4166	1.6	126.3
Greece	(Dr)	379.461	-0.09	281 - 680	379.554	379.267	-	-	-	-	-	-	-
Ireland	(I£)	1.0164	+0.0004	157 - 170	1.0176	1.0158	1.0166	-0.2	1.0159	0.3	1.0144	0.2	105.1
Italy	(L)	2557.07	+6.44	469 - 945	2560.03	2544.92	2563.57	-3.1	2575.72	-2.9	2627.62	-2.8	73.0
Luxembourg	(LFr)	50.4693	-0.028	375 - 011	50.5650	50.4330	50.4943	-0.6	50.3643	0.8	49.8043	1.3	117.1
Netherlands	(Fl)	2.7486	+0.0008	469 - 502	2.7529	2.7465	2.747	0.7	2.7433	0.8	2.7078	1.5	121.0
Norway	(NKr)	10.7144	+0.0052	086 - 201	10.7339	10.6919	10.7147	0.0	10.7133	0.0	10.7044	0.1	88.0
Portugal	(Es)	252.094	+0.016	875 - 193	252.285	251.796	252.854	-3.9	254.329	-3.6	-	-	-
Spain	(Pta)	206.230	+0.001	109 - 351	206.740	205.951	206.585	-2.1	207.245	-2.0	209.97	-1.8	85.0
Sweden	(SKr)	11.7808	+0.0069	692 - 924	11.8238	11.7418	11.7978	-1.7	11.8303	-1.7	11.9468	-1.4	75.6
Switzerland	(SFr)	2.0762	+0.0044	747 - 776	2.0800	2.0742	2.0721	2.4	2.0655	2.1	2.0189	2.7	120.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.4
Ecu	-	1.2884	+0.0008	877 - 891	1.2891	1.2871	1.2883	0.1	1.2882	0.1	1.2829	0.4	-
SDR†	-	0.830161	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5604	+0.0027	598 - 610	1.5607	1.5584	-	-	-	-	-	-	-
Brazil	(R)	1.3246	-0.0011	234 - 258	1.3299	1.3230	-	-	-	-	-	-	-
Canada	(C$)	2.1692	+0.0051	681 - 709	2.1709	2.1652	2.1696	-0.2	2.1706	-0.3	2.1804	-0.5	86.8
Mexico	(New Peso)	5.4111	+0.0093	078 - 144	5.4149	5.4070	-	-	-	-	-	-	-
USA	($)	1.5630	+0.0015	625 - 635	1.5645	1.5620	1.5631	-0.1	1.563	0.0	1.5613	0.1	83.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0154	+0.009	141 - 166	2.0187	2.0093	2.0173	-1.1	2.0218	-1.3	2.0511	-1.8	-
Hong Kong	(HK$)	12.0945	+0.0121	898 - 991	12.1061	12.0675	12.0405	5.4	12.04	1.8	12.055	0.3	-
India	(Rs)	49.0362	+0.0525	156 - 548	49.0780	49.0040	-	-	-	-	-	-	-
Japan	(Y)	156.535	-0.094	438 - 631	156.880	156.430	155.995	4.1	154.94	4.1	148.875	4.9	188.7
Malaysia	(M$)	4.0080	+0.0049	059 - 101	4.0111	4.0054	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4455	+0.0112	437 - 472	2.4477	2.4380	2.4519	-3.1	2.464	-3.0	2.5021	-2.3	-
Philippines	(Peso)	37.6371	+0.0061	469 - 273	37.7300	37.5370	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8618	+0.0056	595 - 641	5.8670	5.8586	-	-	-	-	-	-	-
Singapore	(S$)	2.2901	-0.0008	886 - 916	2.2925	2.2892	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5819	+0.0079	789 - 848	5.5853	5.5782	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.3068	-0.0437	891 - 244	6.3367	6.2834	-	-	-	-	-	-	-
South Korea	(Won)	1240.48	+1.54	000 - 095	1241.59	1239.38	-	-	-	-	-	-	-
Taiwan	(T$)	41.2785	+0.0561	617 - 952	41.3145	41.2016	-	-	-	-	-	-	-
Thailand	(Bt)	39.2548	+0.0351	266 - 829	39.2920	39.2260	-	-	-	-	-	-	-

†SDR rate for Dec 15. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	11.0625	+0.002	600 - 650	11.0690	11.0430	11.055	0.8	11.0385	0.9	10.941	1.1	104.5
Belgium	(BFr)	32.2900	-0.05	800 - 000	32.3420	32.2800	32.275	0.6	32.225	0.8	31.89	1.2	106.1
Denmark	(DKr)	6.1615	-0.0022	600 - 630	6.1752	6.1530	6.1627	-0.2	6.1625	-0.1	6.149	0.2	105.1
Finland	(FM)	4.8640	-0.0127	590 - 690	4.8790	4.8573	4.8618	0.6	4.8585	0.5	4.8415	0.5	81.9
France	(FFr)	5.4150	-0.0055	140 - 160	5.4216	5.4065	5.4132	0.4	5.4102	0.4	5.377	0.7	105.8
Germany	(D)	1.5714	-0.0004	710 - 717	1.5726	1.5693	1.5706	0.6	1.5684	0.8	1.5481	1.5	107.1
Greece	(Dr)	242.790	-0.26	740 - 840	242.950	242.700	245.29	-12.4	250.24	-12.3	267.54	-10.2	68.3
Ireland	(I£)	1.5379	+0.001	373 - 384	1.5391	1.5350	1.5384	-0.4	1.5385	-0.1	1.5387	-0.1	-
Italy	(L)	1636.00	+2.5	600 - 700	1638.00	1628.75	1639.75	-2.8	1647	-2.7	1679	-2.6	73.6
Luxembourg	(LFr)	32.2900	-0.05	800 - 000	32.3420	32.2800	32.275	0.6	32.225	0.8	31.89	1.2	106.1
Netherlands	(Fl)	1.7585	-0.0013	580 - 590	1.7611	1.7577	1.7577	0.6	1.7552	0.8	1.7339	1.4	105.7
Norway	(NKr)	6.8550	-0.0035	535 - 565	6.8732	6.8389	6.8552	0.0	6.8575	-0.1	6.795	0.9	96.2
Portugal	(Es)	161.250	-0.15	200 - 300	161.380	161.150	161.875	-4.7	163	-4.3	167	-3.6	94.9
Spain	(Pta)	131.945	-0.13	910 - 980	132.280	131.750	132.18	-2.1	132.62	-2.0	134.445	-1.9	80.0
Sweden	(SKr)	7.5373	-0.0018	323 - 423	7.5858	7.5076	7.5485	-1.8	7.5698	-1.7	7.6523	-1.5	80.8
Switzerland	(SFr)	1.3283	+0.0015	278 - 288	1.3305	1.3275	1.3261	2.0	1.3218	2.0	1.2941	2.6	106.8
UK	(£)	1.5630	+0.0015	625 - 635	1.5645	1.5620	1.5631	-0.1	1.563	0.0	1.5613	0.1	88.9
Ecu	-	1.2132	+0.0005	129 - 134	1.2141	1.2128	1.213	0.2	†1.2133	0.0	1.2197	-0.5	-
SDR†	-	1.45133	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9984	+0.0008	983 - 984	0.9984	0.9976	-	-	-	-	-	-	-
Brazil	(R)	0.8475	-0.0015	470 - 480	0.8510	0.8470	-	-	-	-	-	-	-
Canada	(C$)	1.3879	+0.0019	876 - 881	1.3881	1.3859	1.3881	-0.1	1.3899	-0.6	1.3989	-0.8	82.3
Mexico	(New Peso)	3.4620	+0.0025	610 - 630	3.4630	3.4610	3.463	-0.5	3.4648	-0.3	3.4722	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.4
Pacific/Middle East/Africa													
Australia	(A$)	1.2894	+0.0045	890 - 898	1.2913	1.2857	1.2901	-0.7	1.2919	-0.8	1.3047	-1.2	92.1
Hong Kong	(HK$)	7.7380	+0.0001	375 - 385	7.7385	7.7375	7.736	0.3	7.7348	0.2	7.7425	-0.1	-
India	(Rs)	31.3725	+0.0025	700 - 750	31.3750	31.3700	31.4425	-2.7	31.5875	-2.7	-	-	-
Japan	(Y)	100.150	-0.16	120 - 180	100.380	100.120	99.83	3.8	99.16	4.0	95.565	4.6	149.0
Malaysia	(M$)	2.5843	+0.0008	838 - 848	2.5848	2.5838	2.5813	1.4	2.5568	1.2	2.5848	-0.8	-
New Zealand	(NZ$)	1.5646	+0.0056	640 - 652	1.5652	1.5598	1.5655	-0.7	1.566	-0.9	1.577	-0.8	-
Philippines	(Peso)	24.0800	-0.02	300 - 300	24.3500	23.8500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-0.0001	501 - 506	3.7506	3.7501	3.754	-1.1	3.7609	-1.1	3.7754	-0.7	-
Singapore	(S$)	1.4652	-0.0018	647 - 657	1.4681	1.4647	1.4637	1.3	1.4602	1.4	1.4437	1.5	-
S Africa (Com.)	(R)	3.5713	+0.0016	705 - 720	3.5720	3.5700	3.5868	-5.2	3.6169	-5.3	3.7838	-6.0	-
S Africa (Fin.)	(R)	4.0350	-0.032	250 - 450	4.0550	4.0250	4.063	-8.3	4.1075	-7.2	4.345	-7.7	-
South Korea	(Won)	793.650	+0.2	600 - 700	793.800	793.100	796.65	-4.5	800.15	-3.3	818.65	-3.2	-
Taiwan	(T$)	26.4098	+0.0098	075 - 120	26.4120	26.3690	26.4298	-0.9	26.4698	-0.9	-	-	-
Thailand	(Bt)	25.1150	-0.0025	050 - 250	25.1250	25.1050	25.1445	-1.4	25.2355	-1.9	25.64	-2.1	-

†SDR rate for Dec 15. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 15. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

December 16	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4⅞	5½	5½	5¾	6⅛	7.40	4.50	-
week ago	4⅞	5½	5⅝	5⅞	6⅛	7.40	4.50	-
France	5⅛	5⅝	6	6⅛	6⅝	5.00	-	6.75
week ago	5⅛	5⅝	5¾	6	6⅛	5.00	-	6.75
Germany	5.00	5.48	5.48	5.55	5.85	6.00	4.50	4.85
week ago	5.00	5.48	5.30	5.43	5.75	6.00	4.50	4.85
Ireland	5⅛	5⅝	5⅞	6½	7⅛	-	-	6.25
week ago	5⅛	5⅝	5⅞	6⅜	7⅛	-	-	6.25
Italy	8⅛	8⅝	9	9⅜	10⅛	-	7.50	8.20
week ago	8⅛	8⅝	8⅞	9¼	10	-	7.50	8.20
Netherlands	4.84	5.47	5.51	5.62	5.95	-	5.25	-
week ago	4.84	5.47	5.43	5.57	5.94	-	5.25	-
Switzerland	3⅞	4	4⅛	4½	4⅞	6.625	3.50	-
week ago	3⅞	4	4⅛	4⅜	4⅝	6.625	3.50	-
US	5⅝	6⅛	6⅜	6¾	7½	-	4.75	-
week ago	5⅝	6⅛	6⅛	6⅞	7½	-	4.75	-
Japan	2¼	2⅛	2⅛	2⅛	2⅞	-	1.75	-
week ago	2¼	2⅛	2⅛	2⅛	2⅞	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	6⅛	6⅛	6⅞	7½	-	-	-
week ago	-	6⅛	6⅜	6⅞	7⅛	-	-	-
US Dollar CDs	-	5.65	6.01	6.52	7.25	-	-	-
week ago	-	5.65	6.09	6.56	7.31	-	-	-
SDR Linked Ds	-	4⅜	4⅞	5¼	5⅝	-	-	-
week ago	-	4⅜	4⅞	5½	5⅛	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅝; 3 mths: 5¾; 6 mths: 6; 1 year: 6½. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 16	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	5⅜ - 5¼	5⅜ - 5¼	5 7/16 - 5 5/16	5 9/16 - 5 7/16	5¾ - 5⅝	6 5/16 - 6 3/16
Danish Krone	5¼ - 5	5⅝ - 5⅜	5¾ - 5½	6⅛ - 5⅞	6½ - 6¼	7⅛ - 6⅞
D-Mark	5 1/16 - 4 15/16	5 1/16 - 4 15/16	5 5/16 - 5 3/16	5 7/16 - 5⅜	5 9/16 - 5 7/16	5⅞ - 5¾
Dutch Guilder	5¼ - 5⅛	5¼ - 5⅛	5⅝ - 5½	5⅝ - 5½	5¾ - 5⅝	6 1/16 - 6
French Franc	5⅜ - 5¼	5 7/16 - 5 5/16	5¾ - 5⅝	6⅛ - 6	6 7/16 - 6 5/16	6⅞ - 6¾
Portuguese Esc.	8¾ - 8½	9⅛ - 8⅞	10⅝ - 10⅜	11 - 10¾	11⅛ - 10⅞	11½ - 11
Spanish Peseta	7 9/16 - 7 5/16	7 13/16 - 7 11/16	8⅛ - 7⅞	8 9/16 - 8⅜	8 13/16 - 8 9/16	9 5/16 - 9 3/16
Sterling	5½ - 5¼	5⅝ - 5½	5 13/16 - 5 11/16	6⅛ - 6¼	6 13/16 - 6 11/16	7 11/16 - 7⅝
Swiss Franc	3¼ - 3⅛	3⅜ - 3¼	4 - 3⅞	4 5/16 - 4 3/16	4 9/16 - 4 7/16	4 13/16 - 4 11/16
Can. Dollar	5 7/16 - 5¼	5⅝ - 5 7/16	6 - 5⅞	6⅞ - 6¾	7 9/16 - 7 7/16	8 5/16 - 8 3/16
US Dollar	5½ - 5⅜	5⅝ - 5½	6⅛ - 6	6 5/16 - 6 3/16	6 13/16 - 6 11/16	7 9/16 - 7 7/16
Italian Lira	9 - 7½	8⅞ - 8¾	8⅞ - 8¾	9¼ - 9⅛	9 13/16 - 9 11/16	10½ - 10⅜
Yen	2⅜ - 2 3/16	2 5/16 - 2¼	2⅜ - 2¼	2⅜ - 2¼	2½ - 2 7/16	2 15/16 - 2⅞
Asian $Sing	3⅞ - 3⅝	4⅜ - 4¼	4 7/16 - 4 5/16	4 9/16 - 4 7/16	4 13/16 - 4 11/16	4 13/16 - 4 11/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.69	93.68	-	93.70	93.67	55,053	288,164
Mar	92.84	92.80	-0.03	92.87	92.77	171,437	485,417
Jun	92.25	92.17	-0.06	92.28	92.15	164,839	355,462

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.45	93.42	-	93.47	93.39	2,722	17,460
Jun	92.86	92.80	+0.05	92.88	92.77	1,394	3,760
Sep	-	92.55	-	-	92.50	56	926

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 16		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.08	16.77	4.867	2.013	5067	5.446	21.22	499.4	408.6	23.35	4.114	1.982	4.298	3.098	310.1	2.553
Denmark	(DKr)	52.40	10	8.788	2.550	1.055	2655	2.854	11.12	261.7	214.1	12.23	2.156	1.038	2.252	1.623	162.5	1.337
France	(FFr)	59.62	11.38	10	2.902	1.201	3021	3.247	12.66	297.8	243.6	13.92	2.453	1.182	2.563	1.847	184.9	1.522
Germany	(DM)	20.55	3.921	3.446	1	0.414	1041	1.119	4.361	102.6	83.96	4.796	0.845	0.407	0.883	0.636	63.72	0.524
Ireland	(I£)	49.67	9.478	8.330	2.417	1	2517	2.705	10.54	248.0	203.0	11.59	2.043	0.984	2.135	1.538	154.0	1.268
Italy	(L)	1.973	0.377	0.331	0.096	0.040	100.	0.107	0.419	9.855	8.064	0.461	0.081	0.039	0.085	0.061	6.120	0.050
Netherlands	(Fl)	18.36	3.504	3.080	0.894	0.370	930.5	1	3.897	91.70	75.04	4.287	0.755	0.364	0.789	0.569	56.95	0.469
Norway	(NKr)	47.11	8.992	7.902	2.293	0.949	2387	2.566	10	235.3	192.5	11.00	1.938	0.934	2.025	1.459	146.1	1.203
Portugal	(Es)	20.02	3.821	3.358	0.975	0.403	1015	1.090	4.250	100.	81.83	4.675	0.824	0.397	0.861	0.620	62.10	0.511
Spain	(Pta)	24.47	4.670	4.104	1.191	0.493	1240	1.333	5.194	122.2	100.	5.713	1.007	0.485	1.052	0.758	75.90	0.625
Sweden	(SKr)	42.84	8.175	7.184	2.085	0.862	2171	2.333	9.092	213.9	175.0	10	1.762	0.849	1.841	1.327	132.9	1.093
Switzerland	(SFr)	24.31	4.639	4.077	1.183	0.489	1232	1.324	5.159	121.4	99.33	5.674	1	0.482	1.045	0.753	75.39	0.620
UK	(£)	50.46	9.630	8.463	2.456	1.016	2557	2.748	10.71	252.0	206.2	11.78	2.076	1	2.169	1.563	156.5	1.288
Canada	(C$)	23.28	4.440	3.902	1.132	0.468	1179	1.267	4.938	116.2	95.07	5.431	0.957	0.461	1	0.721	72.15	0.594
US	($)	32.28	6.161	5.415	1.571	0.650	1636	1.758	6.852	161.2	131.9	7.537	1.328	0.640	1.388	1	100.1	0.824
Japan	(Y)	32.24	6.153	5.408	1.569	0.649	1634	1.756	6.843	161.0	131.8	7.527	1.327	0.639	1.386	0.999	100.	0.823
Ecu		39.18	7.477	6.571	1.907	0.789	1985	2.134	8.315	195.7	160.1	9.146	1.612	0.776	1.684	1.214	121.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6370	0.6362	-0.0004	0.6370	0.6360	7,263	48,257
Mar	0.6374	0.6374	-0.0002	0.6381	0.6370	18,206	68,868
Jun	0.6403	0.6400	-0.0002	0.6405	0.6398	42	1,681

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7522	0.7516	-0.0020	0.7530	0.7510	3,602	30,995
Mar	0.7565	0.7550	-0.0019	0.7570	0.7545	9,791	35,916
Jun	0.7608	0.7601	-0.0019	0.7616	0.7596	6	464

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.9970	0.9982	+0.0017	0.9992	0.9970	6,602	32,267
Mar	1.0057	1.0073	+0.0016	1.0083	1.0057	14,743	67,798
Jun	1.0197	1.0200	+0.0017	1.0210	1.0193	19	2,258

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5622	1.5606	-0.0022	1.5636	1.5590	2,970	27,594
Mar	1.5618	1.5606	-0.0020	1.5642	1.5602	6,825	45,676
Jun	-	1.5602	-0.0022	1.5640	1.5610	28	174

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.500	5.95	5.98	6.14	-	-	0.20
1.525	3.45	3.64	4.07	-	0.15	0.60
1.550	1.00	1.76	2.42	-	0.71	1.38
1.575	-	0.58	1.24	1.40	2.03	2.62
1.600	-	0.12	0.55	3.85	3.99	4.40
1.625	-	-	0.19	6.35	6.34	6.53

Previous day's vol., Calls 12,726 Puts 4,895 . Prev. day's open int., Calls 415,067 Puts 378,448

■ Pound in New York

Dec 16	— Close —	— Prev. close —
£ spot	1.5605	1.5630
1 mth	1.5602	1.5629
3 mth	1.5603	1.5628
1 yr	1.5583	1.5611

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies & Finance page in today's edition.

FT GOLD MINES INDEX

	Dec 16	% chg since 31/12/93	Dec 15	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	Low
Gold Mines Index†(34)	1853.66	-17.0	1874.17	45.49	100.00	2.36	2367.40	1782.02
■ Regional indices								
Africa (16)	2935.42	-11.2	2909.88	15.10	33.25	4.75	3711.87	2304.45
Australasia (7)	2328.99	-12.6	2361.65	5.98	13.17	2.23	3013.89	2171.66
North America (11)	1463.13	-21.4	1498.21	24.32	53.58	0.90	2039.65	1417.00

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Predecessor Gold Mines index: Dec 16 : 224.4; week's change: -3.2 points; Year ago: 247.6.
Market closed 16/12/94: South Africa.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
150	F.P.	79.4	152	145	Ashbourne	148	-3	WN3.0	3.1	2.5	13.6
100	F.P.	4.79	95	90½	Asset Man Inv	95		-	-	-	-
-	F.P.	4,407.7	258	256	BSkyB	257	+½	N-	-	-	-
-	F.P.	68.9	173	133	Clydeport	167	+2	RN3.51	-	2.8	-
100	F.P.	20.4	130	101	Euclidian	102		-	-	-	-
141	F.P.	23.0	143	140	Eurovein	140		WN8.2	1.8	6.5	11.2
-	F.P.	468.0	495	468	Fidelity Spec Units	468		-	-	-	-
100	F.P.	10.6	101	98	Finsbury Smlr C	98		-	-	-	-
$10	F.P.	37.2	625	615	First Russian Fr	620		-	-	-	-
100	F.P.	46.0	94	91	Fleming Nat Res	92		-	-	-	-
100	F.P.	30.0	106	99½	For & Col Emrg C	104½	+½	-	-	-	-
100	F.P.	30.3	102	98	Hoare Govett 1000	101		-	-	-	-
80	F.P.	10.9	83	83	Hydro Intl.	83		RN-	-	-	33.8
-	F.P.	28.8	100	90	INVESCO Korea C	96		-	-	-	-
120	F.P.	25.6	123	123	Innovative Techs	123		N-	-	-	-
215	F.P.	68.4	232	228	JJB Sports	228		RN6.0	2.4	3.3	13.9
100	F.P.	27.0	103	100	Kiln Capital	100		F4.0	-	5.0	-
100	F.P.	59.4	101	98	Leg & Gen Recvry	99	-1	-	-	-	-
100	F.P.	43.5	94	82	Matheson Lloyds	87		-	-	-	-
100	F.P.	59.8	92	88	Murray Emrg Econ	92		-	-	-	-
-	F.P.	14.7	145	138	RAP Group	138		RN4.65	2.1	4.2	10.8
175	F.P.	95.0	210	203	RM	208	-1	N4.8	3.1	2.9	13.4
-	F.P.	5.75	108	105	Residential Prop	105		-	-	-	-
120	F.P.	83.5	144	120	SeaPerfect	129		-	-	-	-
182	F.P.	1,496.5	189	177	Telewest	181½	+2	-	-	-	-
100	F.P.	17.8	102	102	Wellington Un.	102		-	-	-	-

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	Low	Stock	Closing price p	+or-
190	Nil	25/1	30pm	16pm	Cowie	18pm	
100	Nil	25/1	27pm	18pm	Division Grp	27pm	+4
53	Nil	31/1	1½pm	1½pm	MY	1½pm	
37	Nil	3/1	5pm	2pm	OMI	2pm	
12	Nil	3/1	1½pm	¼pm	Saltire	¼pm	
25	Nil	18/1	4pm	¼pm	Usborne	¼pm	

UK INTEREST RATES

LONDON MONEY RATES

Dec 16	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅞ - 3¾	5¾ - 5⅝	6 - 5⅞	6⅜ - 6¼	6 13/16 - 6 11/16	7¾ - 7⅝
Sterling CDs	-	-	6 - 5⅞	6 5/16 - 6 3/16	6⅞ - 6¾	7⅝ - 7½
Treasury Bills	-	-	5 15/16 - 5⅞	6 1/16 - 6	-	-
Bank Bills	-	-	5 15/16 - 5⅞	6 5/16 - 6 3/16	6¾ - 6⅝	-
Local authority deps.	6 1/16 - 5 15/16	5⅞ - 5¾	6⅛ - 6	6 7/16 - 6 5/16	7 - 6⅞	7 13/16 - 7 11/16
Discount Market deps	6½ - 4¼	5 13/16 - 5 11/16	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from December 7, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3⅞	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.8851pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 30, 1994. Agreed rate for period Dec 26, 1994 to Jan 24, 1995, Schemes II & III 7.39pc. Reference rate for period Nov 1, 1994 to Nov 30, 1994, Schemes IV & V 6.107pc. Finance House Base Rate 6½pc from Dec 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Dec 16	Dec 9		Dec 16	Dec 9
Bills on offer	£350m	£350m	Top accepted rate	5.8360%	5.9162%
Total of applications	£1415m	£1451m	Ave. rate of discount	5.8351%	5.9059%
Total allocated	£350m	£350m	Average yield	5.9212%	5.9939%
Min. accepted bid	£98.545	£98.525	Offer at next tender	£350m	£350m
Allotment at min. level	92%	40%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday December 14, 1994 £	Increase or decrease for week £
Liabilities		
Capital	14,553,000	
Public deposits	1,079,103,054	-48,088,529
Bankers deposits	1,625,100,256	+48,093,817
Reserve and other accounts	3,188,953,883	-1,355,261
	5,907,710,193	+650,027
Assets		
Government securities	1,098,089,789	+78,280,000
Advance and other accounts	3,036,412,852	-1,350,357,623
Premise, equipment and other secs	1,769,445,601	+1,277,452,190
Notes	3,600,768	-4,729,576
Coin	161,183	+5,036
	5,907,710,193	+650,027
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	19,176,399,232	+264,729,576
Notes in Banking Department	3,600,768	-4,729,576
	19,180,000,000	+260,000,000
Assets		
Other Government securities	13,234,795,261	+699,397,862
Other Securities	5,945,204,739	-439,397,862
	19,180,000,000	260,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	* Roxburghe Bank Ltd is no longer authorised as a banking institution.	8
Allied Trust Bank	6.25	Exeter Bank Limited	7.25	Royal Bk of Scotland	6.25
AIB Bank	6.25	Financial & Gen Bank	6.5	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Bank of Baroda	6.25	Girobank	6.25	●United Bk of Kuwait	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	Unity Trust Bank Plc	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Western Trust	6.25
Bank of Ireland	6.25	●Hambros Bank	6.25	Whiteaway Laidlaw	6.25
Bank of India	6.25	Heritable & Gen Inv Bk.	6.25	Yorkshire Bank	6.25
Bank of Scotland	6.25	●Hill Samuel	6.25		
Barclays Bank	6.25	C. Hoare & Co	6.25	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25	* In administration	
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
CL Bank Nederland	6.25	●Leopold Joseph & Sons	6.25		
Citibank NA	6.25	Lloyds Bank	6.25		
Clydesdale Bank	6.25	Meghraj Bank Ltd	6.25		
The Co-operative Bank	6.25	Midland Bank	6.25		
Coutts & Co	6.25	* Mount Banking	6.25		
Credit Lyonnais	6.25	NatWestminster	6.25		
Cyprus Popular Bank	6.25	●Rea Brothers	6.25		

UK GILTS PRICES

Notes	Price £	W'k % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Treas 12pc 1995	100½	-.2	2,350	Ja25 Jy25	20.6	1294
Exch 3pc Gas 1990-95	98¾	—	214	My1 Nv1	26.9	1271
10¼pc 1995	102¼xd	-.1	2,500	Ja21 Jy21	15.12	1254
Treas 12¾pc 1995‡‡	105⅞	-.2	840	My15 Nv15	10.10	1298
14pc 1996	107¼xd	—	770	Ja22 Jy22	16.12	1305
15¼pc 1996‡‡	110¾	-.1	1,150	My3 Nv3	27.9	1308
Exch 13¼pc 1996‡‡	107¾	-.1	800	My15 Nv15	10.10	1298
Conversion 10pc 1996	103¾	-.2	3,409	My15 Nv15	10.10	1240
Treas Cnv 7pc 1997‡‡	97¾	-.2	1,998	Ao6 Fe6	30.6	-
Treas 13¼pc 1997‡‡	110xd	-.1	1,280	Ja22 Jy22	16.12	1302
Exch 10½pc 1997	104¾	-.1	3,700	Fe21 Au21	15.7	1253
Treas 8¾pc 1997‡‡	101¾	-.1	6,550	Mr1 Se1	26.7	1341
Exch 15pc 1997	118¾	-.2	830	Ap27 Oc27	28.9	1269
9¾pc 1998	103¼xd	—	3,560	Ja19 Jy19	13.12	1273
Treas 7¼pc 1998‡‡	96¾	-.1	8,150	Mr30 Se30	24.8	-
Treas 6¾pc 1995-98‡‡	95¾	—	1,200	My1 Nv1	26.9	1331
14pc 1998-1	116¼	-.2	970	My22 Nv22	17.10	1306
Treas 15½pc '98‡‡	122½	-.2	935	Mr30 Se30	24.8	1306
Exch 12pc 1998	111¾	-.1	3,909	My20 Nv20	17.10	1259
Treas 9½pc 1999‡‡	103¼xd	-.2	1,900	Ja15 Jy15	9.12	1347
Exch 12¼pc 1999	113¼	-.2	3,050	Mr26 Se26	22.8	1264
Treas 10½pc 1999	107¼	-.1	1,252	My19 Nv19	17.10	1268
Treas 6pc 1999‡‡	90⅝	-.2	5,900	Fe10 Au10	4.7	-
Five to Fifteen Years						
Conversion 10¼pc 1999	106¼	-.2	1,798	My22 Nv22	17.10	1242
Treas Flg Rate 1999	99⅞	—	2,500	9MrJeSeDe	2.11	-
9pc 2000	97¾	-.3	2,500	Ja7 De7	-	-
Conv 9pc 2000‡‡	102¼	-.2	5,358	Mr3 Se3	28.7	1244
Treas 13pc 2000	118¾xd	-.2	3,171	Ja14 Jy14	8.12	1299
10pc 2001	105¼	-.2	4,406	Fe26 Au26	29.7	1260
7pc 2001‡‡	92	-.3	4,250	My6 Nv6	30.9	-
9¾pc 2002	105¾	-.3	6,527	Fe27 Au27	21.7	1349
8pc 2003‡‡	95½	-.3	7,950	Ja10 De10	3.11	-
10pc 2003	105¼	-.3	2,503	Mr8 Se8	2.8	1261
Treas 11½pc 2001-4	112¾	-.2	1,620	Mr19 Se19	15.8	1260
Funding 3½pc 1999-4	74⅝xd		543	Ja14 Jy14	8.12	1274
Conversion 9½pc 2004	105¾	-.2	3,412	Ap25 Oc25	19.9	1248
Treas 6¾pc 2004‡‡	88¾	-.2	8,500	My26 Nv26	20.10	4490
8½pc 2005	100¼	-.2	4,400	Ja7 De7	-	-
Conv 9½pc 2005	105¾	-.3	4,842	Ap18 Oc18	12.9	1247
Treas 12½pc 2003-5	122¼	-.3	2,200	My21 Nv21	17.10	1295
7¾pc 2006‡‡	94¾	-.2	3,900	Mr8 Se8	2.8	-
8pc 2002-6‡‡	95⅝	-.4	2,000	Ap5 Oc5	1.9	1334
Treas 11¾pc 2003-7	118¾xd	-.1	3,150	Ja22 Jy22	16.12	1293
Treas 8½pc 2007‡‡	100¼xd	-.1	7,197	Ja16 Jy16	12.12	1339
13½pc 2004-8	128⅝	-.2	1,250	Mr26 Se26	22.8	1301
Treas 9pc 2008‡‡	104¼	-.3	5,321	Ap13 Oc13	6.9	1343
Treas 8pc 2009	96¼	-.3	3,100	Mr25 Se25	19.8	1336
Over Fifteen Years						
Treas 6¼pc 2010	81¾	-.4	4,750	-	19.10	-
Conv 9pc Ln 2011‡‡	105¼xd	-.3	5,273	Ja12 Jy12	6.12	1245
Treas 9pc 2012‡‡	104⅞	-.4	5,351	Fe6 Au6	30.6	1701
Treas 5½pc 2008-12‡‡	75¼	-.2	1,000	Mr10 Se10	4.8	1330
Treas 8pc 2013‡‡	96¾	-.3	5,800	Mr27 Se27	22.8	-
7¾pc 2012-15‡‡	94½	-.2	800	Ja26 Jy26	20.6	1332
Treas 8¾pc 2017‡‡	103¾	-.4	7,550	Fe25 Au25	19.7	1982
Exch 12pc 2013-17	131¾	-.4	1,000	Ja12 De12	7.11	1260
Undated						
Consols 4pc	46¼	-.3	359	Fe1 Au1	27.6	1239
War Loan 3½pc‡‡	42¼	0.1	1,909	Ja1 De1	25.10	1352
Conv 3½pc '61 Aft	58¾	—	119	Ap1 Oc1	25.8	1243
Treas 3pc '66 Aft	35¼	-1.1	58	Ap5 Oc5	1.9	1324
Consols 2½pc	30¼xd	0.6	275	5JaApJyOc	1.12	1238
Treas. 2½pc	29¼	0.4	475	Ap1 Oc1	25.8	1315

Index-Linked (b)		Price £	W'k % +/-	Amnt £m	Interest due	Last xd	City line
2pc '96	(67.9)	200¼	—	1,200	Mr16 Se16	10.8	1313
4⅝pc '98‡‡	(135.6)	108¾	-.1	800	Ap27 Oc27	20.8	-
2½pc '01	(78.3)	168¼	—	1,500	My24 Se24	18.8	1316
2½pc '03	(78.8)	162¼	—	1,300	My20 Nv20	17.10	1317
4⅜pc '04‡‡	(135.6)	103¾	0.1	1,000	Ap21 Oc21	14.9	-
2pc '06	(69.5)	169¾xd	0.2	1,050	Ja19 Jy19	13.12	1314
2½pc '09	(78.8)	152¼	0.1	1,769	My20 Nv20	17.10	1318
2½pc '11	(74.6)	157¼	0.1	2,100	Fe23 Au23	18.7	1319
2½pc '13	(89.2)	129¾	0.2	2,300	Fe16 Au16	11.7	1320
2½pc '16	(81.6)	138¼	0.2	2,700	Ja26 Jy26	20.6	1321
2½pc '20	(83.0)	132¼	0.2	2,750	Ap16 Oc16	9.9	1322
2½pc '24‡‡	(97.7)	110¼xd	0.2	2,350	Ja17 Jy17	12.12	1323
4⅛pc '30‡‡	(135.1)	109¼xd	0.3	1,300	Ja16 Jy22	18.12	-

(b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for April 1994: 144.2 and for November 1994: 146.3.

Other Fixed Interest

Notes	Price £	W'k % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009	111¼	-.9	100	Mr24 Se24	3'93	-
B'ham 11½pc 2012	119	—	45	My15 Nv15	4'93	1837
Ireland Cap 8½pc '10	97½	—	303	Ap1 Oc1	-	1485
9pc Cap 1996	99¼	-.2	725	Ja30 Jy30	-	-
13pc '97-2	107½	—	315	Ap1 Oc1	8'93	1426
Hydro Quebec 15pc 2011	142¾	-.5	40	My31 Nv30	10'93	-
Leeds 13½pc 2006	129½	—	40	Ap1 Se9	3'93	3146
Liverpool 3½pc Irred	37	-1.3	5	1JaApJuOc	6'93	-
LCC 3pc '20 Aft	32½	-1.5	26	1JaJeSeDe	9'93	-
Manchester 11½pc 2007	115½	—	8	Ap25 Oc25	3'93	3275
Met. Wtr. 3pc 'B'	69¼	-.7	25	Mr1 Se1	6'93	3361
N'wide Anglia 3¾pc 2021	132	-.5	80	Ja30 Jy30	1'93	3465
4¼pc IL 2024	126¼	-.5	50	-	7'93	-
Utd Mex States 16½pc 2008	139	0.4	50	Mr1 Se1	5'93	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. £ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12	1994 High	1994 Low	Since comp. High	Since comp. Low
FT-SE 100	3013.8	2973.4	2980.6	2948.4	2943.4	3520.3	2876.6	3520.3	986.9
FT-SE Mid 250	3437.1	3413.9	3405.8	3373.2	3372.4	4152.8	3383.4	4152.8	1379.4
FT-SE Mid 250 ex ITs	3436.3	3412.0	3405.0	3370.7	3370.7	4180.7	3392.4	4180.7	1378.3
FT-SE-A 350	1510.7	1492.8	1494.7	1478.3	1477.0	1778.3	1451.3	1778.3	664.5
FT-SE SmallCap	1730.93	1730.81	1727.68	1728.91	1732.78	2084.96	1727.68	2084.96	1363.79
FT-SE SmallCap ex ITs	1699.77	1699.79	1697.06	1698.94	1703.30	2060.72	1697.06	2060.72	1363.79
FT-SE-A All-Share	1498.05	1479.60	1481.19	1468.10	1465.19	1784.11	1445.85	1784.11	61.92
FT-SE Eurotrack 100	1329.65	1328.74	1316.82	1309.30	1309.12	1549.19	1285.48	1540.19	900.45
FT-SE Eurotrack 200	1378.77	1372.89	1365.54	1356.86	1355.35	1607.10	1335.96	1687.10	938.52
FT Ordinary	2314.3	2289.7	2292.60	2267.0	2266.7	2713.6	2255.5	2713.6	49.4
FT Govt Securities	91.97	91.94	91.85	91.49	91.89	107.04	88.54	127.40	49.18
FT Fixed Interest	109.72	109.80	109.52	109.49	109.75	133.87	106.50	133.87	50.53
FT Gold Mines	1853.66	1874.17	1885.48	1867.01	1848.45	2367.4	1782.02	2367.40	522.18
Predecessor Gold Mines	224.4	222.8	219.5	219.2	220.4	293.9	185.0	734.7	43.5

THE VENEZUELA HIGH INCOME FUND N.V.

Notice of Special General Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the Board of Supervisory Directors of the Venezuela High Income Fund N.V. (the "Fund") hereby calls a Special Meeting of Shareholders of the Fund to be held at the offices of Curaçao Corporation Company N.V., the Fund's managing director (the "Managing Director"), located at De Rayterkade 62, Willemstad, Curaçao, Netherlands Antilles on 9 January, 1995 at 10.00 a.m. Netherlands Antilles time for the purpose of considering and, if thought fit, passing the proposal set out in the Notice of Special General Meeting of Shareholders (the "Notice") circulated to Shareholders with a Proxy Statement and Form of Proxy. Copies of the Notice, the Proxy Statement and the Forum of Proxy are available to Shareholders from the Managing Director at the address stated above.

By Order of the Board of Supervisory Directors

Fiduciary Issue by Kredietbank S.A. Luxembourgeoise to fund a loan to be made by it to

ISVEIMER

Istituto per lo Sviluppo Economico dell'Italia Meridionale

US$ 150,000,000 Floating Rate Notes due 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from December 19, 1994 to June 19, 1995 the Notes will carry an Interest Rate of 7⅝% per annum.

The Interest Amount payable on the relevant Interest Payment Date, June 19, 1995 will be US$ 192.74 per US$ 5,000 principal amount of Note, US$ 3,854.86 per US$ 100,000 principal amount of Note and US$ 19,274.31 per US$ 500,000 principal amount of Note.

The Agent Bank
Kredietbank S.A. Luxembourgeoise

Notice of Interest Rate

To the Holders of

The United Mexican States

Collateralized Floating Rate Bonds Due 2019

NOTICE IS HEREBY GIVEN that the interest rates covering the interest period from December 16, 1994 to June 16, 1995 is detailed below:

Series Designation	Rate	Interest Amount	Interest Payment Date
DMK Discount Series	6.50 Pct. P.A.	DMK 32.86 Per DMK 1,000	June 16, 1995

December 16, 1994 CITIBANK, N.A., Agent

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

صكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON SHARE SERVICE

BANKS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl	□	22½	0.6	Q81%	♦	Sep May	9.93	–
ANZ A$		202	3.1	Q25c	♦	Jan	12.93	–
Abbey National	♣†N□	433	3.0	18.5	2.1	May Oct	15.8	5411
Allied Irish I£	♣†N□	282	1.6	[illegible]	2.7	Oct May	15.8	1364
Anglo Irish I£	N□	64xd	—	Q7.5%	♦	Jan Jul	28.11	1365
Asahi Y	□	710¼	1.1	Q14%	♦	Jan Dec	12.92	3046
Banco Bil Viz Pta	□	£18⅝	0.3	Q27.2%	2.7	JyOcJaAp	7.93	–
Banco Sant Pta		£24¼	—	Q35%	2.0	[illegible]	1.8	–
Bk Ireland I£	†N□	287xd	0.3	Q47%	3.2	Jan Jul	21.11	1380
Bank Scotland	♣†N□	207xd	–2	5.31	3.3	Jul Dec	17.10	1742
9¼pc Pf		117¼	–2	9¼%	–	May Nov	17.10	1492
9¼pc Pf		123	–2	9¼%	–	May Nov	17.10	1495
Barclays	♣†N□	594½	1.8	16.85	1.9	Oct May	15.8	1704
Dai Ichi Kan Y	□	£11⅛	1.7	Q28%	1.2	Jan Dec	9.93	–
Deutsche DM	□	£292¾	–1.1	Q39%	–	May	9.93	–
Espirito Santo	□	25¼	–2	Q50c	5.2	Jan	6.93	5187
First Nat Fin	N□	69	–1.7	1.5	–	Mar Aug	18.7	2071
6.3pc Cv Pf		69xd	–5.6	6.3%	–	Jul Jan	12.12	2676
7pc Cv Pf		111xd	–5.1	7.0	–	Jul Jan	12.12	1486
Fuji Bank Y	□	1357	5.2	Q17%	♦	Dec Jun	7.93	–
HSBC HK	†N□	680	2.4	24.5	2.4	Nov Jun	5.9	2785
HSBC (75p Shs)	†N□	695½	2.4	24.5	2.4	Nov Jun	5.9	2775
Irish Permanent	uN□	225	0.9	9.8	2.9	Apr Oct	–	4789
Lloyds	†N□	555	2.0	23.0	2.1	Oct May	8.8	3171
Mitsubishi Y	□	215¾	2.4	Q17%	♦	Jan Dec	12.92	–
Mits Tst & Bk Y	□	920	4.7	Q16%	12.4	Jan Dec	12.92	–
Mitsui Tst & Bk Y	□	645¼	2.3	Q17%	5.5	Jan Dec	12.92	–
Nat Aust A$		546	4.0	Q74c	♦	Jan Jul	21.8	–
NatWest	†N□	504	1.0	19.4	2.4	Oct May	8.8	3493
Occidente FFr		£21½	—	Q125%	♦	May	25.5	–
Ryl Bk Scotland	♣†N□	400xd	0.4	13.75	2.8	Feb Jul	12.12	2874
Sakura Y	□	£8¼	0.8	Q17%	3.0	Dec Jun	12.92	–
Sanwa Y	□	£12⅛	0.3	Q18%	2.0	Jan Dec	12.92	–
Standard Chartd	†N□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sumitomo Bk Y	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokai Bk Y	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

LEISURE & HOTELS - Cont.

OIL EXPLORATION & PRODUCTION - Cont.

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

TRANSPORT - Cont.

OIL, INTEGRATED

SPIRITS, WINES & CIDERS

OTHER FINANCIAL

SUPPORT SERVICES

WATER

AMERICANS

LIFE ASSURANCE

MEDIA

OTHER SERVICES & BUSINESSES

CANADIANS

TELECOMMUNICATIONS

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

TEXTILES & APPAREL

RETAILERS, FOOD

PHARMACEUTICALS

INVESTMENT COMPANIES

MERCHANT BANKS

PRINTING, PAPER & PACKAGING

RETAILERS, GENERAL

OIL EXPLORATION & PRODUCTION

TOBACCO

TRANSPORT

LEISURE & HOTELS

PROPERTY

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£34	—	0375c	1.9	Oct Apr	3'93	–
Barlow	‡	25¼xd	1.5	056c	✦	Jan Jul	12.12	–
Gold Flds Prop R		118xa	—	052c	✦	Feb Sep	31.1	–
HK Props.		95	—	007.1c	–	Feb Sep	10'93	–
SASOL	♥	492	0.2	078c	–	Oct	9'93	–
SA Brews	†	214¼xd	-.9	0163c	2.2	Jun Dec	21.11	–
Tiger Oats		753xd	—	080c	2.6	Jan Jul	12.12	–
Tongaat-Hulett	†ß	725xc	—	050c	2.4	Feb Aug	4.1	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the *Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks* through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ✦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) UK & Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IIMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1230 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: TLG (Elctn & Elect Eqpt), Abtrust Latin American Ord & Warrants (Inv Trusts), Tele-Cine Cell (Media), Bitech (Oil Explm) and Adare Printing (Prntg Paper & Pckg).

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close December 16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

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4 pm close December 16

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
25	17½	SnDgSE x	1.52	7.8	17	707	20⅛	20	20⅛	+⅛
10	7½	SantaFeEPs	0.16	1.9	9	2856	8⅝	8¼	8⅝	+⅛
17⅞	12¼	SFeGd			27	7861	13⅝	13⅛	13⅛	-⅛
39¼	30⅛	SFePPipe	2.80	8.8	8	144	32¼	31¾	31⅞	-⅛
25¼	12⅛	SanFeP	0.10	0.6	13	12888	17⅛	16¾	16⅞	+⅛
30	18⅝	SaraLee	0.68	2.7	55	15535	25⅞	25⅜	25½	
50⅛	41	Scana Corp x	2.82	6.6	12	306	43	42¾	43	-⅛
20½	12½	Sceptr	1.00	6.7	9	17647	15¼	14⅞	14⅞	
46⅞	31¾	ScheringP			29	335	44⅛	43⅞	44	+½
78⅞	54½	SchrPl	2.04	2.8	15	9570	74½	73¼	73⅞	-⅝
63	50	Schlmb x	1.20	2.3	24	6326	51½	51	51¼	+⅜
37	23¾	SchwabC	0.28	8.8	15	850	34½	33⅞	34	-½
10¾	6⅛	Schwitzer			7	51	7⅝	7½	7½	-⅛
22¾	12½	SciAtl	0.06	0.3	39	4469	21⅝	20½	21	-⅝
18¼	13	Scotsman	0.10	0.6	12	147	17⅝	17⅜	17½	+⅛
69¾	37¼	ScottP	0.80	1.2	21	3180	u69¾	68¾	68⅞	-⅝
25⅝	18½	ScudderNAgF	0.21	1.0		101	21½	20⅞	21⅛	-½
12⅝	8⅝	ScudderNEaF	0.16	1.8		473	9⅛	9	9	
18¼	12½	SeaCnB	0.70	5.4	8	32	12⅞	12¾	12⅞	
19½	14¼	SeaC1.4625	1.48	10.1		14	14⅝	14½	14½	-⅛
24⅞	22⅞	S'gate			8	3348	23⅞	d23⅛	23⅛	-⅝
32⅝	26¼	Seagram x	0.60	2.1	14	5056	29⅝	29⅛	29¼	+¼
28⅞	18⅞	Seagull En			33	1006	20⅛	20	20	-⅛
38¼	26⅝	Sealed Air			20	306	34¾	34⅛	34½	
58¼	42⅛	SearsR	1.60	3.5	13	14679	45½	44¾	45½	+½
13¾	9¼	Seligm Sel x	0.84	7.8		546	10⅞	10⅝	10¾	
38¼	26	Sensormat	0.22	0.7	27	1783	33½	32½	33¼	
30¾	17⅝	SequaA	0.60	2.7	8	232	22¼	21¾	22⅝	+⅝
40¼	21	SequaB	0.50	2.0	13	35	25½	24	25½	+1
28	22½	ServCp	0.42	1.6	17	3910	26⅛	25¾	26⅛	+⅜
26⅝	21½	SvMstr	0.92	4.0	13	426	23	22⅝	22⅞	
[illegible]										

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
44½	34¾	Tambrds	1.76	4.8	15	1771	36⅝	36¼	36⅝	-⅛
19⅛	10½	Tandem			11	4915	18⅞	18½	18⅝	+⅛
49⅞	30⅝	Tandy	0.60	1.3	18	2614	47⅛	46⅝	46¾	-½
12¼	7⅞	Taurus Mun	0.69	7.9		154	9	8¾	8¾	
4	2	TCCInd			39	20	2¾	2¾	2¾	
22⅝	18⅛	Teco Energ	1.01	4.9	14	1444	20⅝	20⅜	20½	-⅛
40½	23⅝	Tektrnx	0.60	1.6	16	1377	38½	36	38½	+½
29⅝	23⅛	TeleDa			2	4062	24	23½	23⅝	-½
29⅝	14¼	Teldyn	0.80	4.7	100	1747	17⅛	16⅞	17⅛	+⅛
45⅛	34⅝	TeleEspSA	1.69	4.5	7	1360	37⅝	37¼	37⅝	+⅜
78	49⅛	Telmex	1.51	3.0	9	37307	50¾	49⅞	49⅞	-1¾
56¾	43	Templnl	1.08	2.3	29	2282	45⅝	45⅞	46½	+½
30⅝	18	TempltEmMk	0.10	0.5		330	20¼	20	20	+⅛
8⅝	6¾	TempltGlob	0.60	8.9		156	6¾	6⅝	6¾	+⅛
8	6¼	TempltGIFd x	0.60	8.9		1140	6¾	6⅝	6¾	
58¾	37	Tenneco	1.60	3.9	12	16871	41⅞	40¾	41⅛	+⅝
30	25⅝	Teppco Pts	2.40	9.1	8	97	26½	26	26⅜	+⅜
33⅞	20⅛	Teradyne			18	1018	31⅞	31	31	-¾
8⅞	4¼	Terex	0.06	0.9	0	223	6¾	6⅝	6¾	+⅛
13⅛	5⅞	Terra Inds	0.08	0.8	18	2055	9¾	9½	9½	-¼
12⅞	5¼	Tesoro			8	1745	9⅝	9⅜	9⅝	+¼
69⅛	58⅛	Texaco	3.20	5.2	18	10210	61⅝	61	61⅝	+⅜
38¾	29⅝	Texas Ind	0.20	0.7	10	983	30¼	30	30⅛	
88½	61	TxInst	1.08	1.4	10	6255	73⅞	72¼	72⅝	-¾
22⅛	18¼	Texas Pac	0.40	2.1	13	48	18⅝	18⅝	18¾	
43½	29⅞	TxUtil	3.08	9.5	14	6930	32⅞	32½	32½	
4⅛	2½	Textl Inds	1.10	44.0	2	270	2½	d2½	2½	-⅛
60⅝	45½	Textron x	1.40	2.8	10	2485	49⅝	48¾	49⅝	+⅞
4¾	3¾	Thackeray			200	2	4	4	4	
24¼	14¾	Thai Cap	0.35	2.1		62	16⅞	16	16¾	+¾
36½	23½	Thai Fund	0.28	1.1		442	24¾	24⅝	24¾	
47⅞	38	ThermoElec	0.12	0.3	21	893	43⅞	43⅛	43⅝	+⅝
29	22¾	Thiokol	0.68	2.4	9	540	28¼	27⅛	28	+⅞
71¼	58⅛	ThBetz x	2.24	3.3	18	807	67⅞	66⅞	67⅛	+⅝
[illegible]										

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

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Price data supplied by Telekurs

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- T -

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- U -

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AMEX COMPOSITE PRICES

4 pm close December 16

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close December 16

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

- A - B - C - D - E - F - G - H - I - J - K - L - M - N - O - P - Q - R - S - T - U - V - W - X - Y - Z -

FT GUIDE TO THE FORTNIGHT

19

MONDAY

EU-Turkish customs union

Foreign ministers of the European Union and Turkey meet in Brussels to discuss establishment of a customs union in 1996. Opposition from Greece and human rights campaigners will probably force a postponement of a decision for a couple of months.

Bosnia: Armed forces chiefs from 11 Nato countries concerned in the Bosnian conflict meet to consider ways of reinforcing the UN mission in former Yugoslavia. They will be joined by other interested parties, including Russia and Germany, on Tuesday.

European Union fisheries ministers meet in Brussels to sort out Spanish and Portuguese entry to Union fishing waters. Felipe González, Spain's prime minister, will push for integration into the common fisheries policy by 1996, but the French, UK and Irish are worried about the impact on stocks.

BCCI: A settlement for creditors of the failed Bank of Credit and Commerce International proposed by liquidators Touche Ross goes before a London court.

Gulf Co-operation Council leaders, meeting in Bahrain, are expected to review their commitment to double their joint forces in the Gulf.

FT Surveys: Sweden and Czech Republic.

20-21

TUESDAY

Fed meets on interest rates

Most analysts do not expect the Federal Reserve's policy-making Open Markets Committee to raise short-term rates this side of Christmas, but a half-point rise to 6 per cent remains a possibility.

China and its main trading partners meet in Geneva to take stock of Beijing's eight-year-old application to join the General Agreement on Tariffs and Trade and its successor, the World Trade Organisation. Gatt members will try to persuade Beijing to keep talking past its end-year deadline for a "substantive agreement".

De Beers, which accounts for at least 80 per cent of world trade in uncut diamonds, reveals its 1994 sales. After first-half sales of $2.58bn, it eased back, so the total is expected to be about the same as last year's $4.366bn.

UK parliament rises for the Christmas recess (to Jan 10).

WEDNESDAY

Italian politics: The fate of Silvio Berlusconi's embattled right-wing coalition government will be decided by a confidence debate immediately after approval of the 1995 budget. Berlusconi will be testing whether all coalition members, especially the populist Northern League, are willing to continue his eight-month-old mandate.

22-23

THURSDAY

Say when on Schengen

Ministers from seven EU states meet in Bonn to decide when the Schengen free-travel accord should come into force.

Interior ministers from Germany, France, the three Benelux countries, Spain and Portugal are expected to set March 25 as a date for the abolition of border controls, although France may request a 6-month transition period.

The Bundesbank central council is to fix 1995 parameters for German money supply growth as measured by the much-maligned but stoutly-defended M3 formula. The factors influencing the decision – permissible inflation levels and potential for economic growth – will also be weighed in the routine contemplation of interest rates, which some observers persist in believing may be reduced today.

FRIDAY

Romania's left-wing minority government faces its sixth no-confidence vote in two years in office. The opposition Democrat Party's motion was sparked by mass protests by thousands of unpaid workers in the western industrial town of Resita last week.

Holidays: Japan (Emperor's Birthday). European Union institutions close until Jan 2.

24-26

SATURDAY

Elections in Kyrgyzstan

Kyrgyzstan votes for a two-house legislature. President Askar Akayev was criticised for dissolving parliament in September, but his proposed constitutional reforms were strongly supported in a referendum the next month. Mr Akayev hopes the new parliament will give greater support to his economic reforms, which is backed by the International Monetary Fund.

Holidays: Sweden.

SUNDAY

Japan's new electoral system takes effect. It replaces the current 511-seat lower house of parliament, elected from Japan's unique multi-seat constituencies with a 500-seat parliament of 300 single-seat constituencies and 200 proportional representation seats, chosen from 11 electoral regions.

Uzbekistan holds its first multi-party elections since independence.

Holidays: Main markets closed for Christmas Day.

MONDAY

A Turkish court is to give its verdict on 124 Islamic fundamentalists suspected of starting a hotel fire in the town of Sivas that killed 33 people attending an arts festival.

Chechnya: Boris Yeltsin goes a-wassailing

Measures coming into effect on January 1 1995

The World Trade Organisation, the successor to the General Agreement on Tariffs and Trade, is launched. Gatt will continue for a one-year transition period.

Mercosur: A customs union comprising Argentina, Brazil, Uruguay and Paraguay is due to come into being. It may develop into the nucleus of a South American Free Trade Area.

Andean Pact countries, Bolivia, Colombia, Ecuador, Peru and Venezuela, enter into their own free trade agreement.

Japan initiates a partial opening of its rice market, allowing 4 per cent of consumption to be supplied by imports.

European security: The Conference on Security and Co-operation in Europe (CSCE), which comprises all European and Commonwealth of Independent States countries and the US and Canada, changes its name to Organisation for Security and Co-operation in Europe (OSCE). This is part of an effort to upgrade the body into an umbrella organisation for European security.

European Union expands:

Austria, Finland and Sweden join. The Union's territory will grow by a third, its population by 6 per cent and its GDP by 7 per cent. Norway's voters rejected membership in a referendum in November.

Austria, being rich, will have to contribute some Sch30bn ($2.7bn) to the EU's coffers this year, aggravating a budget deficit of 5 per cent of GDP. About a third of the money comes back as adjustment payments to farmers because the Common Agricultural Policy takes immediate effect.

Consumers are the big winners, not only on food prices, but also on many service costs where protectionist walls must come down. The Austrian National Bank is joining the European Monetary System immediately and will probably join the Exchange Rate Mechanism in short order. The schilling is rigidly pegged to the D-mark, so these moves will have no noticeable effect.

Sweden and Finland, neutral Nordic neighbours who kept their distance from western Europe during the Cold War, step into the Union hoping membership will consolidate their recovery from deep recession.

Both will become net contributors to the budget; consumers should benefit from lower food prices as trade barriers fall, but Finland's highly subsidised farmers are braced for a painful adjustment to the EU's lower farm prices. Both countries are signing up for the EMS, but intend to float their currencies for the time being.

France takes over the rotating six-month presidency of the European Union from Germany against the background of campaigning for domestic presidential elections due in May.

Free-trade agreements between the EU and the three Baltic republics, Estonia, Latvia and Lithuania, are due to come into effect. They are a first step towards eventual accession.

European Medicines Evaluation Agency opens shop in London. A pharmaceuticals licensing body for medicines marketed in more than one European Union country, it should streamline drug approvals.

Euro-gobbledygook: Britain's Plain English Campaign, which crusades against obscure bureaucratic language, has said it will turn its attention to Brussels-speak. Its Inside Write campaign is to monitor internal publications.

Germany's second Financial Markets Promotion Act, the legislative mainstay of a project to bring Finanzplatz Deutschland up to international standards in areas such as regulation and supervision, comes into force. Centrepiece is a ban on insider trading with five years' jail as the maximum punishment.

First victims of the legislation have been the traditional "fireside chats" – informal pre-Christmas meetings between management and hand-picked journalists at which sensitive full-year results data were formerly dished out as liberally as the beer and sausages.

Cost of unity: German taxpayers face a 7.5 per cent solidarity surcharge on income tax to help pay for the integration of former East Germany into the country.

UK employers' liability insurance policies, which provide cover against workplace deaths and injuries, renewed from today will no longer offer unlimited cover. Insurance companies have imposed a basic claims limit of £10m.

UK commission disclosure: Under a new regime imposed by City regulators, life insurance and pensions sales agents and advisers will have to give customers more information about the policies they sell and the costs of selling them.

Last gasp: Australia extends its anti-smoking provisions. There will be a ban on advertising smoking materials, except limited point of sale material, and on the use of brand names for promotional purposes. Packaging must bear larger health warnings.

The US's Delta Airlines begins a smoking ban on all its flights.

Century of cinema: The cinema has decided to declare 1995 its 100th birthday in a year-long celebration around the globe. Paris in December 1895 saw the first audience buy tickets for the first public moving picture show in a disused ballroom.

27-30

TUESDAY

US consumer confidence

The US Conference Board's December consumer confidence indicator will be scanned for signs of stabilisation after last month's 12 point-jump.

WEDNESDAY

UK economy: Chancellor Kenneth Clarke meets Eddie George, governor of the Bank of England, for their monthly discussion of monetary policy. The City thinks interest rates have further to rise, but analysts do not expect a decision so soon after December 7's ½ point increase in base rates to 6.25 per cent.

THURSDAY

US leading indicators for November are expected to show little change for the third month running.

FRIDAY

UK chancellor Kenneth Clarke starts a tour of Malaysia, Thailand and Vietnam to drum up business for the UK financial services industry.

Holidays: Japan (markets closed to Jan 3), Philippines.

31-1

SATURDAY

Treuhand shuts up shop

Germany's Treuhand privatisation agency, the world's largest holding company set up in 1990 to privatise east German industry, ceases operations. With more than 13,000 enterprises originally on its books, the agency has either sold off or shut down the region's industry. In all, it raised DM160bn ($102bn) from investment guarantees and will save 1.5m of the 3.5m pre-1990 industrial jobs.

SUNDAY

Brazilian presidency:

Henrique Cardoso (left) takes office. Mr Cardoso, of the Social Democratic party, was elected on October 3 and is expected to push for economic reforms to consolidate the success of the Real currency in cutting inflation.

Compiled by Patrick Stiles. Fax: (+44) (0)171 873 3194

ECONOMIC DIARY

Other economic news

Tuesday: The twice-yearly economic outlook from the Paris-based Organisation for Economic Co-operation and Development will give an upbeat view of economic prospects for the OECD's 25 industrialised member states over the next two years. Governments will be urged to maintain prudent policies to secure steady growth with low inflation.

Wednesday: Britain's trade with countries outside the European Union is expected to show some improvement in November. The City consensus points to a deficit of £375m after October's mildly disappointing shortfall of £410m.

Thursday: UK third-quarter balance of payments figures will attract more attention than usual because some analysts believe the fall in the UK visible trade deficit to a near 10-year low in the three months to end-September could presage current account equilibrium or surplus.

During the week: German M3 growth is expected to slow further in November. However, the consensus forecast of 6.4 per cent annualised growth from the base in last year's final quarter would still be above the 4 per cent to 6 per cent target range.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Dec wh'sale price indx (1st 10 days)	-	0.0%
Dec 19	Aus'lia	Nov merchandise imports	4.2%	2%
Tues	US	Oct trade – goods & services	-$10bn	-$10.1bn
Dec 20	US	Oct goods & services export (BOP	$60bn	$59.7bn
	US	Oct goods & services import (BOP)	$70bn	$69.8bn
	US	Oct trade – goods (BOP)	-	-$14.6bn
	US	Johnson Redbook w/e Dec 17	-	-0.5%
	Japan	Oct overall pers consump expend**	-0.1%	2%
	France	Oct industrial production*†	0.2%	-0.4%
	France	Oct manufacturing production*†	0.3%	-0.8%
	UK	Nov M4*	0.4%	-0.1%
	UK	Nov M4**	3.8%	3.9%
	UK	Nov M4 lending	£2bn	£1.8bn
	UK	Nov bdg scty net new commit	£2.8bn	£2.8bn
	Canada	Oct retail sales*†	0.8%	-
Wed	US	Nov treasury budget	-$35bn	-$32bn
Dec 21	France	Nov consumer prices indx final*	-	0.3%
	France	Nov consumer prices indx final**	-	1.7%
	France	Oct trade balance†	FFr7bn	FFr6.2bn
	UK	Nov trade ex-EC	-£375m	-£401m
Thur	US	3rd qtr gross domestic, prod final	3.9%	3.9%
Dec 22	US	3rd qtr GDP, deflator final	1.9%	1.9%
	US	3rd qtr, after corp tax profit	2.8%	2.8%
	US	Initial claims w/e Dec 17	322,000	323,000
	US	State benefits, w/e Dec 10	-	2.42m
Thur	US	M2 w/e Dec 12	$5bn	-$1.5bn
Dec 22	Japan	Oct coincident indx	70%	60%
(cont)	Japan	Oct leading diffusion indx	60%	54.5%
	UK	3rd qtr gross dom prod (final)**	4.2%	4.2%
	UK	3rd qtr real disposable income**	-	1.2%
	UK	3rd qtr savings ratio	-	9.3%
	UK	3rd qtr balance of payments	-	-£584m
Fri	US	Nov durable orders	1.5%	-1.5%
Dec 23	US	Nov durable shipments	-	-1.2%
	US	Nov personal income	0.2%	1.4%
	US	Nov pers consumption expend	0.6%	0.7%
	US	Dec Michigan sentiment final	-	97.7
During the week...				
	Germany	Nov wholesale price indx*	0.1%	-0.3%
	Germany	Nov producer prices indx**	0.1%	1%
	Germany	Nov M3 from 4th qtr base	6.4%	6.8%
	Germany	Oct trade balance	DM8bn	DM8.8bn
	Germany	Oct current a/c	-DM4bn	-Dm5.2bn
	Germany	Dec cost of living prelim*	2.6%	2.7%
	Germany	Nov import prices **	1.8%	1.6%
	Italy	Oct producer prices indx**	-	3.7%
	Italy	Oct wholesale price indx**	-	4%
	Italy	Nov M2, three-monthly average**	3.3%	3.8%
	Spain	Oct producer prices index**	4.2%	0.4%

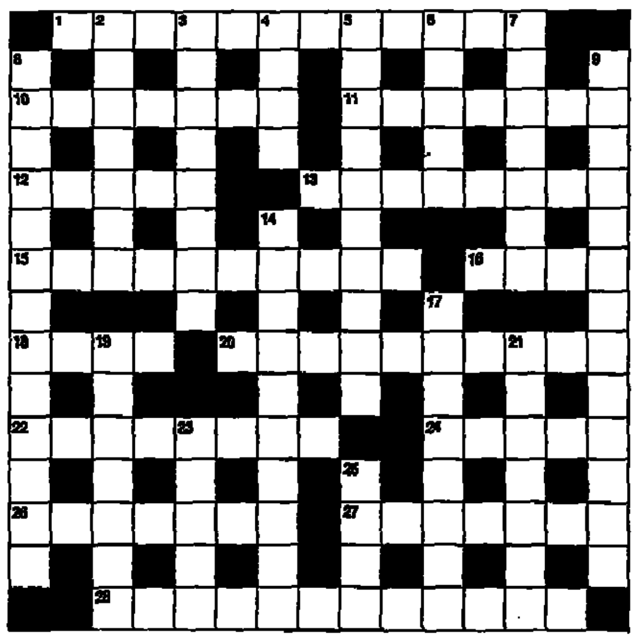
*month on month, **year on year, † seasonally adjusted. *Statistics, courtesy MMS International.*

ACROSS

1 One exploiting people is looking round the back for it (12)
10 Waited near hospital, unused to journalist (7)
11 Spear provided free in marquee (7)
12 Tease redhead and friend (5)
13 Old lady in *Issue One's* settled abroad (8)
15 Paints where you might find pegs? (10)
16 Girl's love for idol (4)
18 Scuttle round concealed from gangster (4)
20 Hardy fell backwards after a vault (10)
22 Brown accepts ICI work before becoming optometrist (8)
24 They cling on when one struggles (5)
26 Candidate takes one running round colliery (7)
27 Take control; start performing live (7)
28 Wrongly portray miser dancing here (12)

DOWN

2 Abused vicar lied badly (7)
3 Army draft endlessly training somewhere countrified? (8)
4 Orderly missing a day after it turned up (4)
5 Opinion as to time in organisation (10)
6 Not without noticing it's freezing (5)
7 Explosive device taken round in French class (7)
8 Complete even if going round or working (13)
9 Turns to steam trains for a job? (13)
14 Against even appearing unruly to infringe (10)
17 Rows with poor Gus about repulsive quality? (8)
19 Best spinning top, one mother finds (7)
21 View inside bulb is very good (7)
23 Ice-creams being cold one starts shivering (5)
25 Knocks up box (4)



MONDAY PRIZE CROSSWORD

No.8,640 Set by GRIFFIN

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 29, marked Monday Crossword 8,640 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 2.

Name...

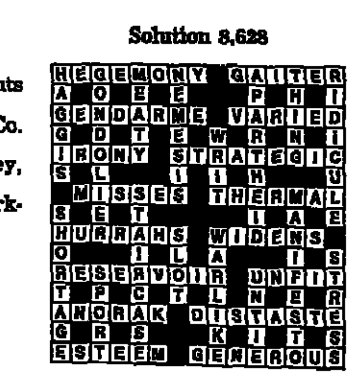
Address...

....

Winners 8,628

Ann Forbes, Huddersfield
C. Baxter, Lower Froyle, Hants
J. Doe, Bath, Avon
J. Duddy, Templepatrick, Co. Antrim
Mrs S. Farquhar, Woodley, Berks
M.B. Murphy, Lindley, Yorkshire

Solution 8,628



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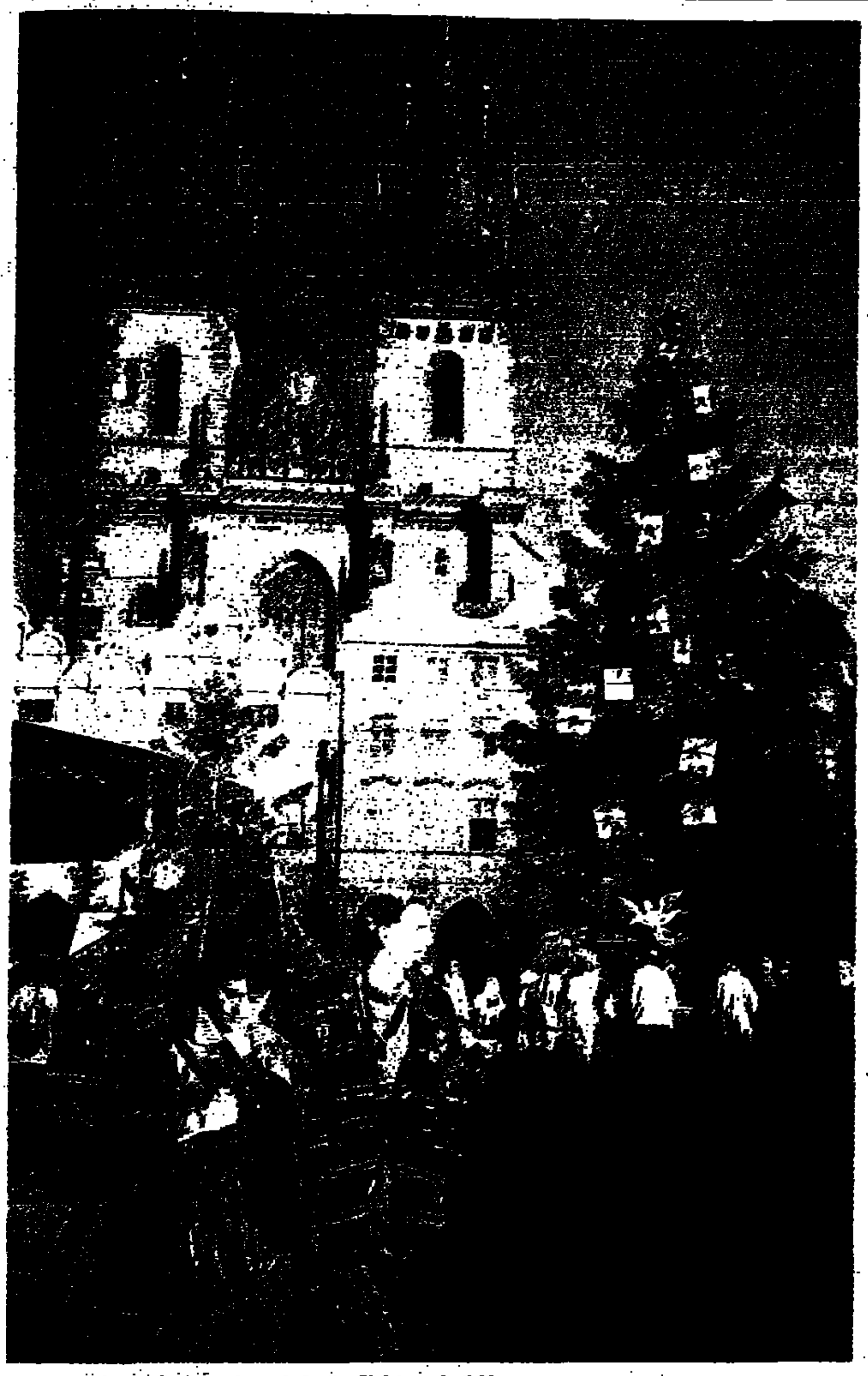
FINANCIAL TIMES SURVEY

CZECH REPUBLIC

Monday December 19 1994



Prague's Old Town Square gets ready for the Christmas festivities   Anthony Robinson

A pro-business government has achieved political stability while maintaining economic growth, writes **Anthony Robinson**

Towards a state of grace

The inter-war Czechoslovakia which is preserved in sepia photographs and the still modern buildings of its avant-garde architecture was a prosperous, bourgeois democracy in the heart of Europe; it was a normal country. The post-communist Czech Republic, divorced from Slovakia since January 1993, is well on its way back to that state of grace.

Keeping the new state on the straight and narrow path of recovery is a pro-business government headed by an abrasive, opinionated, but undoubtedly clever, man. In style and substance, Mr Vaclav Klaus, the prime minister, far more closely resembles his political idol, Britain's Margaret Thatcher, than any of his counterparts elsewhere in a central Europe released from Soviet bondage only five years ago.

Alone among post-communist politicians, Mr Klaus manages to combine clear and unequivocal public statements about the virtues of hard work, private enterprise and free markets with a subtle manipulation of the state budget to ease the pain of transition and keep the electorate on his side.

"The government will not subsidise or bail out bankrupt companies. It is prepared to act as a catalyst for change or to share in restructuring costs, but then all involved – the government, creditors and the enterprise itself – have to sacrifice something," says Mr Jiri Waigl, the prime minister's chief adviser.

Not everyone is impressed. Mr Milos Zeman, who leads the main non-communist opposition grouping, the social democrats says: "Klaus was fine for the first, restrictive phase. His time is over. The problem is that he does not know it yet."

But neither, it seems, does an electorate which voted heavily for Mr Klaus in the June 1992 elections and reconfirmed its support by backing candidates linked to his party, the Civic Democratic party (ODS), in last month's local elections. Opinion polls also continue to give him and his party top rating. Barring accidents, Mr Klaus, a 52-year-old macro-economist, looks well set for another term in office as head of a coalition government after general elections scheduled for mid-1996.

The economy is his strong point. As finance minister he masterminded the economic reform strategy which came into effect in January 1991, a year after the pioneering "shock therapy" Polish reform programme. Whereas Poland faced hyper-inflation and was saddled with a $42bn foreign debt, Mr Klaus inherited a decaying but cautiously managed economy with relatively little debt and stable prices.

While Poland and Hungary became bogged down in complicated, government-managed privatisation schemes Mr Klaus, contemptuous of the capacity of governments or bureaucracies to manage enterprises, boldly struck out on a two-stage mass privatisation programme.

The results have been spectacular. By early next year, around 80 per cent of the economy will be at least partially privatised. At that point the fate of the Czech economy will be largely in the hands of enterprises and the managers and investment funds set up to exercise corporate governance on behalf of more than 7m small shareholders.

The most painful part of micro-economic readjustment at the enterprise level is probably about to begin. Hundreds of former state-owned enterprises have already shed up to half their bloated workforces and disposed of assets. But few have actually closed or been forced into bankruptcy. The bankruptcy and related laws are on the statute book, but the courts are inexperienced in commercial matters and overloaded.

The pace of bankruptcies should rise sharply in the new year, and so, temporarily, should unemployment. The jobless rate is currently around 3.5 per cent nationally, but far lower in the Prague region where around 60 per cent of GDP originates. Increasingly, influential policy makers such as Mr Josef Tosovsky, the central bank governor, argue that without a labour shake-out from dying companies, the pace of economic recovery risks being stunted by labour and other shortages.

The difficulty lies in convincing Mr Klaus that the political fall-out will be less than feared, provided policy makers concentrate on removing bottlenecks to growth in what is already an expanding economy. This means difficult decisions in politically sensitive areas, such as raising public utility tariffs and rents so as to encourage labour mobility by freeing up the property market.

Mr Klaus has already shown he can be stubborn in such matters. After months of work by bankers and lawyers, he turned down flat a plan to build a toll motorway from Heidelberg to Prague when he found that the tolls would have to be so high that only German motorists could afford them, but not Czechs on an average monthly wage equivalent to about $250.

For all the razzmatazz about the market economy, Mr Klaus is acutely aware that daily life remains a struggle for most of the 10.3mCzechs, while the fruits of change as yet are being enjoyed by a fairly thin, albeit highly visible, stratum of society. His delicate political antennae have helped ensure that, unlike elsewhere in the region, the Czech communist party stands no chance of returning to power in a new guise. The communists retain electoral support among the old and those nostalgic for the old social safety net and easier work practices. But the majority continue to share the optimism shown by Mr Klaus about the future.

There are blemishes on the record. One is the prime minister's constant humiliation of President Vaclav Havel, who is in many ways a far more representative figure of the traditionally tolerant, sceptical, bucolic and somewhat shambling Bohemian of popular stereotype than the austere, rather Germanic, Mr Klaus. Another is the Czech approach to the civil rights of an uncomfortable minority within their ranks – the country's nearly 250,000 gypsies, many of whom were rendered stateless after the divorce from Slovakia.

Increasingly however, the Czech Republic is being perceived, along with Poland, as the economic success story of central Europe. Of that region, it is the most prepared country for entry into the European Union.

Foreign capital has been flowing into the republic in embarrassing amounts. Reserves have risen virtually to equal the nation's foreign debt. The credit rating agencies give it investment grade listing, Czech companies and banks have been welcomed back to international capital markets while the government is repaying its own loans at a fast clip.

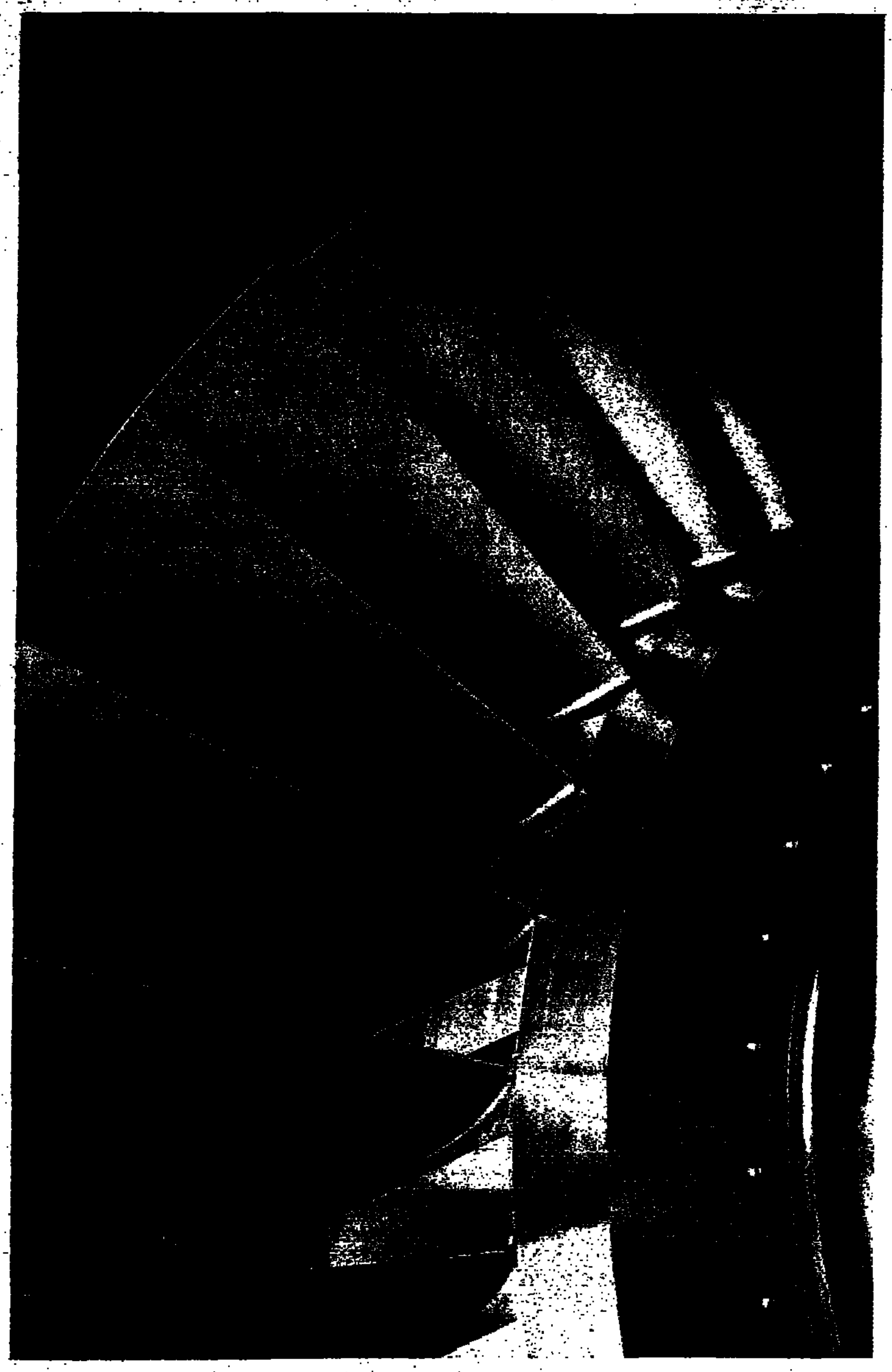
Above all, the economy is expanding again while the budget remains balanced and inflation is dipping towards single digits. The Czech Republic is closer to complying with the "convergence criteria" laid down by the EU Maastricht summit than most of the EU's current members, and is more politically stable, too.

Mr Klaus, in an elegant overcoat and carrying a silver-topped cane, looked at least the equal of his western counterparts at the EU summit in Essen earlier this month. He has clear views on the future shape of an enlarged Europe and on the errors of Europe's current policies. Prague did not break free from Moscow only to fall under the thrall of centralising, socialistically inclined Brussels, he tells the west. He also blames excessive social security costs for Europe's high unemployment and loss of global competitiveness.

Until now, western Europe has liked to view itself as the senior party when advice was required. The Czech Republic under Mr Klaus has become the most forcible advocate in former communist Europe of the need for a genuine dialogue. Both sides will probably benefit from the exchange.

IN THIS SURVEY

Editorial production: Gabriel Bowman and Sarah Murray



The main economic indicators

	Unit	1990	1991	1992	1993	1994	Latest
Real industrial growth	%	-1.2	-14.2	-6.6	-0.3	2.2	June-June
Industrial production*†	%	-3.5	-24.4	-10.6	-5.3	1.2	July-July
Consumer prices†	%	9.7	56.7	11.1	20.8	10.2	Aug
Unemployment rate‡	%	0.8	4.1	2.6	3.5	3.2	Aug
Convertible exports	US$m	4,668	5,816	7,850	10,006	10,200	Forecast
Convertible imports	US$m	4,920	5,476	9,222	10,504	11,100	Forecast
Convertible trade balance	US$m	-252	340	-1,372	-498	-900	Forecast
Convertible current account balance	US$m	-127	1,186	53	279	637	June-June
Foreign direct investment‡	US$bn	0.3	0.8	-1.8	2.3	2.5	June
Convertible external debt‡	US$bn	-	-	7.5	8.7	8.7	March
Official foreign exchange reserves‡	US$bn	-	-	0.8	3.8	6.4	July
Debt ratio	Years	-	-	0.5	0.3	0.4	Forecast
Interest service ratio	%	-	-	5	4	5	Forecast
Official gold reserves‡	m ounces	-	-	-	1.95	1.95	March
Exchange rate vs US dollar‡#	CZK	28.0	27.8	28.9	30.0	27.7	Nov 4

* = Until 1991: companies with more than 100 employees. From 1992: companies of all sizes. † = Change over previous year (annual average). ‡ = At end of period. # = Until 1992: Czechoslovak koruna (CSK). *Source: Deutsche Bank Research*

Anthony Robinson and **Vincent Boland** on economic prospects

Raising efficiency is vital

The Czechs have managed better than most to shift from a command to a market economy while maintaining macro-economic stability through the transitional recession. The issue for next year and beyond is how far and how fast the owners and managers of the newly privatised enterprises and start-up companies can raise efficiency against a backdrop of resumed economic growth and rising foreign reserves and investment.

The government likes to boast that 80 per cent of the economy will be in private hands once the second round of mass privatisation is concluded early next year. It exaggerates. The state retains majority stakes through the national property funds in what socialists used to call "the commanding heights of the economy" – energy, steel, telecommunications and the like.

What is more, the still indirectly state-controlled commercial banks themselves control hundreds of the newly privatised enterprises through their ownership of most of the top 10 investment funds which have sprung up over the past three years.

The revamped state-owned banks still control about 80 per cent of banking business and have received large-scale state aid in order to clear their balance sheets of inherited bad debts. They still have to prove their efficiency as risk assessors and capital providers to private business.

The banks insist that they have erected Chinese walls between their banking and fund management activities. Independent fund managers are not so sure that the state banks would be willing to take painful bankruptcy decisions, for example, if the net result was to expose their own bad loans to the company concerned.

Economic policymakers also face some difficult decisions in the new year if they are to satisfy demands for clarity on the future tariff structures of public utilities. Last but not least, the recent inflow of foreign funds into the country also demands action if the Czech Republic is to maintain macro-economic stability and progress securely to single-digit inflation as desired in 1995.

The government and the Czech National Bank have different views on how to profit from the capital inflows. The CNB would like to see faster progress towards full convertibility for the Koruna and argues that policy should concentrate on removing labour, housing and other physical bottlenecks to faster, investment-led growth.

The government, which means the prime minister himself as the ultimate decision-maker, is more cautious. With elections due in mid-1996 at the latest, ministers fear the electoral fall-out from over-hasty moves to raise utility tariffs or radically reduce the security of tenants in low-cost apartments.

Construction was the first sector to pick up, with a 20 per cent rebound in 1992 as the new owners of shops and apartments refurbished and modernised property restored to them as previous owners or bought at auction.

But broader signs of an economic upturn appeared only in May this year, fuelled by rising industrial and construction activity and a surge in tourism and other service industries, including banking and finance.

The prime minister (r) with Sir Evelyn de Rothschild as N.M. Rothschild and a Czech bank join forces (see p4)

Gross domestic product is expected to expand by 2.5 per cent in 1994, after four years of declining output and incomes accompanied by far-reaching structural changes in the economy.

Next year the CNB forecasts GDP growth of 3 to 4 per cent while Mr Vaclav Klaus, the prime minister, told parliament in early December that the 1995 budget estimates were predicated on a 3.3 per cent rise.

The pace of growth will depend partly on the performance of the German economy, and partly on how the government decides to use the capital inflows that are currently being absorbed by the CNB's open market operations and domestic bond issues.

So far, most of the foreign capital inflows have been in the form of hard currency credits by overseas banks to Czech enterprises. The loans have been used to finance the purchase of capital equipment or for working capital, on terms cheaper than those available from Czech banks.

The inflows are reflected in the Czech Republic's trade statistics, which show that import growth was much higher than the 13 per cent dollar increase in exports in 1994, leading to the virtual elimination of last year's trade surplus. With gross tourist revenues running at more than $1.5bn over the first nine months of 1994, the overall current account is expected to show a surplus of about $600m in 1994.

But if the government opts for a strategy of investment-led growth next year, the most likely result would be a substantial trade deficit, although again the high rate of tourist and other invisible earnings

Despite Prague's free market rhetoric, it remains actively involved in big strategic investment projects

should allow for a surge in imports without pushing the current account of the balance of payments into deficit.

The government has agreed to consider higher energy prices from next year, but the proposed increases, averaging about 12 per cent, have not satisfied producers. CEZ, the electricity monopoly, says it will lose money on domestic customers even with the price rises.

A test of the government's attitude to higher utility prices will come when it formulates a price structure for SPT Telecom, the national telecommunications company. The state is selling 27 per cent of SPT to a foreign investor and the new structure will have a crucial bearing on the price to be paid

Formulating a price structure for SPT Telecom will test the government's attitude to higher utility prices

for the stake. The overall aim is to "rebalance" prices, raising domestic call charges while lowering international charges, currently among the highest in the region. It is a delicate political and commercial balancing act.

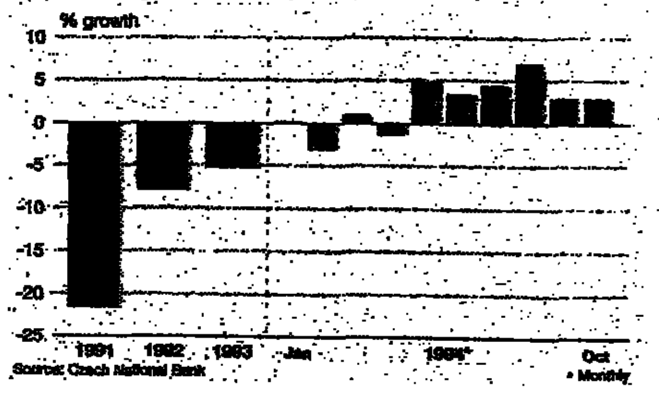
Despite the government's ceaseless free market rhetoric, it remains actively involved in big strategic investment and privatisation projects such as Skoda/VW and the choice of strategic partners for SPT and the petrochemical industry.

Both telecoms and petrochemicals are billion-dollar projects that are designed to bring key industrial and service sectors up to international standards.

That task is relatively easy and will follow well-trodden paths. The principal challenge in 1995 will be to raise the level of managerial skills and efficiency in thousands of privatised former state enterprises across the country.

Where the strategic vision has succeeded is in ensuring that this is no longer a job for the government but for Mr Klaus's army of new shareholders, investment funds, managers and workers. They now hold the fate of most Czech enterprises in their own hands. Good corporate governance is the need now and will decide how the economy as a whole shapes up in preparation for full membership of the EU early next century.

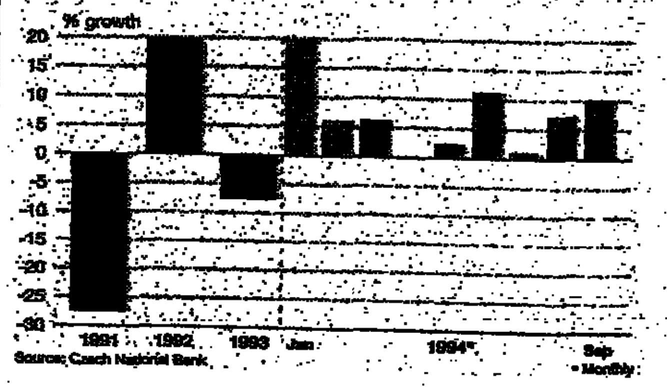
Industrial production



Source: Czech National Bank

* Monthly

Construction



Source: Czech National Bank

* Monthly

Reserves grow

Relatively high interest rates and the prospect of Koruna revaluation in the event of full convertibility keep foreign funds flowing in. Every day for the past few months, the CNB has been buying foreign currency at the regular 11am forex fixing session, writes Anthony Robinson.

So far this year, it has drained $3.4bn of liquidity from the markets, pushing reserves up to $5.8bn by early December. This is *after* repayment ahead of schedule of International Monetary Fund loans totalling $1.07bn. Reserves in the banking system as a whole, at about $8.3bn, are roughly equivalent to a quarter of the estimated $35bn gross domestic product for 1994.

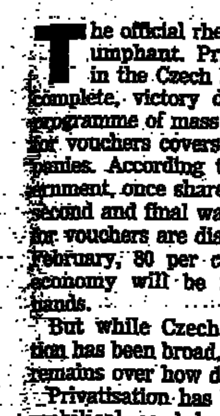
This means that at the end of its second year of independence, the Czech Republic is essentially free of foreign debt. Psychologically, that is gratifying, especially after the initial worry prompting the central bank to borrow abroad to bolster reserves shortly after the January 1993 divorce from Slovakia.

But the inflows, much of which are speculative, have disturbing implications for money supply and inflation control. The CNB is struggling to keep inflation for 1994 within its target of 10 per cent. Mr Josef Tosovsky, governor of the CNB, warns: "It will be much harder to reduce inflation to 8 per cent in 1995 against a background of rising economic growth."

صكذا من الاهل

While official declarations talk of the success of the privatisation programme, a number of problems remain

Czech sell-off broader than it is deep



The official rhetoric is triumphant. Privatisation in the Czech Republic is complete, victory declared. A programme of mass asset sales for vouchers covers 1,500 companies. According to the government, once shares from the second and final wave of sales for vouchers are distributed in February, 80 per cent of the economy will be in private hands.

But while Czech privatisation has been broad, a question remains over how deep.

Privatisation has broken the umbilical cord between the state and enterprises. Managers are now to a large extent free of governmental interference.

Fears that mass distribution of shares would leave owners, each with a tiny fragment, impotent have proved unfounded. About two thirds of Czechs participating in the mass privatisation scheme entrusted their vouchers to special investment funds. These can take stakes of up to 20 per cent in individual companies.

In the second wave of mass privatisation alone, 349 funds and about 2m individuals bid for shares, but the 15 largest institutions picked up 40 per cent of what was on offer leaving share ownership more concentrated than in the UK or US.

But while managers have proved surprisingly responsive to their new owners the funds themselves seem unsure of what to do with their sudden power. The few western-controlled funds behave like their western counterparts, but most are passive. Attempts to revamp management often run into opposition from the largest domestic funds. ZB-Trust, a subsidiary of a German-Czech bank, says it initiated shake-ups but could never gather sufficient support from other shareholders.

Institutional investors in the UK or US, while rarely forcing management changes, do drop the shares of companies with which they are unhappy. The large Czech funds do not. "The majority of funds are very bureaucratic," says Mr Tibor Nemes, director of the capital markets department of Ceska Sporitelna. "'Call me in a week after our investment committee meets and then we can decide,' they say."

Lack of experience is part of the problem. Mr Nemes talks dismissively of "so-called fund managers" and says: "They are not fund managers, they have no experience."

Another explanation is that fund managers are not primarily interested in pleasing their investors. The fee structure for Czech fund managers encourages them to increase the worth of the holdings they control, but not necessarily the return to shareholders. Standard fees are 2 per cent of net asset value a year.

But there are many other ways of making fund management pay. At one extreme are the fraudsters that use their control to enrich themselves with little regard for shareholders. But some respectable fund managers also charge obscure "management fees".

A more serious concern is that three of the top four fund managers are subsidiaries of state-influenced Czech banks. "You take a company controlled by government and you sell to a bunch of funds controlled by banks controlled by government," says Mr Harvey Schuster of Corus, a Czech-American fund.

Government and banks deny that commands pass down this chain. But the banks' dual roles of lender and owner, through their funds, are confused, although they maintain that Chinese walls divide the parent company and its fund management subsidiary.

Mr Alex Angell of brokers Wood & Co suggests a conflict of interest exists. "Large banks' funds have been using their influence to maintain banking links with the parent company," he says. Bank funds may also be reluctant to file for bankruptcy and force a write-off on to the lending arm. Banks have brokerage as well as fund management subsidiaries. The temptation is to milk the fund management unit through excessive brokerage fees.

However, none of this detracts from the broad success of the Czech Republic's mass privatisation. Abuses by fund managers occur in countries with far longer traditions of stockmarket capitalism.

There is, moreover, a tradition of compromise in Czech business life. The passivity of the voucher funds may reflect that as much as encourage it. "Czechs are much more likely to sit round a table than to pull the trigger," says Mr Daniel Arbess, a partner at lawyers White & Case.

The Czech economy is still evolving. The dominance of funds may be a transitory phase. Already some western investors have bought them out in order to take control of Czech companies. Welsh Water's acquisition of a Czech water utility is a good example. Shares in SPT Telecom, the telecoms utility, are due to be distributed only next February in the second wave but New York hedge funds and Swiss private investors have already engaged in futures contracts to buy shares allocated to privatisation funds.

It becomes harder to cast voucher privatisation as a mere restructuring of public ownership. Banks, the owners of fund managers, are moving into private ownership as they make rights issues to build up their capital base.

Fund managers are themselves improving under the discipline of the market. ZB-Trust is the best regarded of the Czech bank funds. "We want to be a professional investment company. Not just for voucher privatisation. We want to be good because we plan products in the future and we want to build up a track record," says Mr Ales Barabas, member of the board of parent Zivnotenska Banka.

The ultimate market discipline for fund managers is the threat of takeover. "They are like any manager of any business; if it can be taken over they are going to care more," says Mr Richard Wood, managing director of Wood & Co.

The threat is there. Funds are worth less than the sum of their parts. Out of 18 funds followed by Wood & Co, 11 trade at discounts of more than a half to net asset value. Wood & Co is trying to identify a small fund and help take it over for a demonstration effect that would revalue investments in all funds. "That would be a theatrical event," says Mr Wood. "Once people see that it can happen discounts would decrease dramatically."

Some fund managers have foreseen takeover bids, however. The Harvard fund management group – run by controversial entrepreneur, Victor Kozeny – has instituted a "poison pill" arrangement that makes it all but impossible to seize its funds. The Czechs have adopted the tricks of capitalism as well as its nobler principles.

Nicholas Denton

Activist funds are in charge

Critics of Czech voucher privatisation feared that managers, freed of state control, would answer to no one but themselves. Some activist investment funds have shown that is not necessarily the case, writes Nicholas Denton.

Creditanstalt Investment Company, a subsidiary of the Austrian bank, has seats on the management boards of about 30 of the 70 companies in which it holds shares. When it was unhappy with the managing director of a hotel and spa company in Marienbad, it gathered the support of two other funds and brought in a younger man. The Harvard Group, run by Mr Victor Kozeny, the controversial entrepreneur who thought up the first fund, even succeeded in changing the chairman of Ceska Sporitelna, the savings bank.

Shareholder activism has its sunnier side, too. Creditanstalt and fellow institutional shareholders gave the management of a Moravian brewery a 10 per cent stake on easy terms.

If none of this works, the institutions have a final resort. "If we like a company but not the management we seek other funds; if they don't agree to changes we sell," says Mr Nigel Williams, chairman of Creditanstalt Investment Company.

Managers are aware that the funds control their fate. Corus, a Czech-American investment company, manages a holding in a Moravian brewery. Mr Harvey Schuster, its chairman, says: "When the manager comes to Prague, he's a bit jumpy. He wants to make sure we're friends."

Yet Mr Schuster reckons that Czech managers, after four years of capitalism, pay more attention to shareholders than their US counterparts. "They are sometimes too sensitive," he says. "When someone says he owns 20 per cent of the shares, the manager still thinks he is like a commissar or from the ministry."

Nicholas Denton on the SPT Telecom offer

The $1bn draw

Excitement over the Czech Republic's telecoms privatisation is reaching a peak. Rival telecoms executives from the US and Europe – and their investment bankers – trip over each other in hotel lobbies. In the breakfast rooms they confer in hushed voices to ensure they will not be overheard.

Ten companies remain in the running for the 27 per cent stake on offer in SPT Telecom. Three consortia have emerged: one, already announced, grouping Bell Atlantic of the US and France Telecom; another pairing Ameritech, another US regional operator, with Deutsche Telekom of Germany; and a third led by KPN of the Netherlands and including AT&T of the US and Swiss Telecom. Telecom Denmark, Southwestern Bell and Italy's Stet are still casting around for partners.

"I've never been on a deal where I've met so much bidder interest," says Michele Goffin, a vice-president of JP Morgan, advisers to the government. She describes how bidders argued about how many people could go into the "data room" to look through SPT documents for the specified 12 hours. "It was incredible to watch them cram 14 people into a room."

Financial investors, too, are buying into SPT Telecom, even ahead of privatisation. In the second wave of the Czech Republic's voucher programme, 26 per cent of the company has been allocated to individuals and voucher funds. These shares will be distributed early next year. Already, however, western hedge funds and private investors are engaging in contracts with Czech institutions to take future delivery of stock. This market has set a price of about Kc3,500 a share.

The intensity of interest puts Czech officials in a strong bargaining position. "We are not begging investors to come," says Jiri Makovec, chairman of SPT. "We are just telling them that this is an opportunity." The sale is likely to raise more than $1bn, making it the biggest transaction yet in eastern Europe.

Such fierce competition reflects the fact that for western operators the sale is a rare opening. "The opportunity to buy into and influence an emerging markets telecoms company is disappearing. This is the biggest play around at the moment," says a western investment banker.

The Latin American telecom deals are largely completed and west European privatisations are generally taking the form of public offerings. Thirty per cent of Hungary's telecoms company Matav has been sold to Deutsche Telekom and Ameritech; Poland still appears uncertain about how to conduct its telecom privatisation. "The timing for the Czechs has been impeccable," says Ms Goffin.

SPT Telecom has its own special attractions. The Czech Republic is home to eastern Europe's most successful economy and must carry SPT with it. "Telecoms has to do well because otherwise they won't turn around their industrial society," says Harvey Schuster, chairman of Corus, a Czech voucher fund that has invested heavily in SPT.

Investors believe the company is well managed. Operating profit in 1993 was Kc6.5bn ($230m). The company has little debt and will have still less: the winning western consortium will take its 27 per cent stake through a capital increase. The Czech budget is in rough balance; so all the proceeds will go to SPT, none to the government.

The concern of investors is an unusual one: SPT's gearing is too low rather than too high. "They won't have to borrow a cent for two to three years," says one adviser.

Even the company's failings have silver linings. Line density at 20 per 100 inhabitants is low by western standards. Waiting lists are still high at 600,000. But frustrated demand offers the potential for rapid revenue growth. Labour turnover is high at about 20 per cent per annum. This leads to rising salaries but it also makes cutting back the labour force easier.

One problem is the Czech Republic's distorted phone tariff structure. International calls are among the most expensive in Europe while local calls are the cheapest at about US5c for unlimited time. The government is unwilling to raise charges sharply ahead of elections in 1996.

The group most likely to win will be the one which can promise the most rapid development. The target is to double the number of lines by the year 2000 at a cost of about Kc130bn. Only large-scale investment will ease widespread criticism of the telecoms company. "We are public enemy number one," says Mr Makovec of SPT. "No other company is so unpopular."

Attacks come not only from the general public. SPT's international switch is overloaded and businesses are stepping up their criticism. "Lines are getting worse. They've hooked up so many that you can't get through," says Andrew Reicher, outgoing general director of investment bank CS First Boston in Prague.

France Telecom cites its experience in transforming a backward telephone network to one of the world's most modern in the space of a decade. But most of the companies competing are technically up to the task. Stet will have to bear Italy's often unjustified reputation for broken lines but it is likely to compensate for that by bidding high.

Bell Atlantic, France Telecom and KPN all have the advantage of longstanding links with SPT. France Telecom and Deutsche Telekom suffer the handicap of state ownership. Deutche Telekom and Ameritech will find it difficult to promise the Czech Republic any role as a regional hub for telecommunications traffic after having done so already in Hungary.

But the deciding factor may be nationality. The Czech government's view of French state companies has been soured by Air France's unsuccessful investment in CSA, the Czechoslovak airline.

A leading role for Deutsche Telekom would reinforce Germany's economic influence, already uncomfortably large, over a country it occupied in the second world war.

Moreover, a sale to a state-owned company would hardly be the privatisation in which the Czech government believes so strongly. France Telecom and Deutsche Telekom are addressing these concerns. Each led its respective consortium in Hungary. In the Czech Republic they are taking a back seat to their US partners.

Whichever western consortium comes out on top, SPT and the Czech Republic are bound to be winners. All the conditions are present for a bidding war. "It is going to take a billion dollars or more to walk away with it," says an adviser.

■ RESTRUCTURING AND EMPLOYMENT

The pace needs to quicken

The economy minister answers his critics, in an interview with ANTHONY ROBINSON

As an economist, Mr Karel Dyba, minister of the economy and an old friend of Mr Vaclav Klaus, the prime minister, likes tackling questions such as "Is it possible to restructure a socialist economy without either large-scale bankruptcies or heavy unemployment?"

For most of the post-communist states, plagued with double- digit unemployment and idle factories, the answer has proved negative. But the Czechs, partly through good fortune but mainly through astute political and economic footwork, appear to have pulled off the trick.

Sceptics argue that Czech full employment is largely an illusion, with government-enforced low pay allowing enterprises to keep under-employed workers on the payroll rather than unemployment lines.

Alternatively they claim that Czechs have low unemployment because they have hardly started the painful micro-economic surgery on former state-owned enterprises which has led to mass lay-offs in seriously reforming states such as Poland or Hungary. Bankruptcies to date have been few and far between and mainly limited to small companies.

Mr Dyba has little time for such criticism. Without changes at the enterprise level, it is impossible to sustain macro-economic stability, he argues. "Our experience shows that speed is better than searching for perfection. We have moved from zero to 80 per cent share of privately-owned enterprises in five years. But this has been accompanied by dramatic structural changes.

"Employment in the farm sector, for example, has fallen by 50 per cent. The fastest growth has been in the service sector, especially tourism and financial services."

Countering accusations of slow change in the formerly bloated state-owned industrial enterprises – artificially biased towards heavy industry and the Soviet market, he reels off the manpower reductions in the largest five state-owned enterprises.

"The biggest employer of all, the Czech railways, shed 30 per cent of its former 165,000 workers between 1990-93. Skoda Pilzen, the biggest engineering conglomerate, lost 43 per cent, the OKD coal mines shed nearly half their workforce, the Vitkovice steel plant lost a further 28 per cent and the telephone monopoly SPT shed 13 per cent," he says.

But Mr Gabriel Eichler, chief financial officer of CEZ, the electricity corporation, which has slimmed its workforce from 16,000 to 12,000 in three years, says that with wages so low the real improvements in efficiency have come elsewhere. "At CEZ labour represents only 2.6 per cent of total costs. In our case, the real improvement has come through a 500 basis points reduction in our average borrowing costs through tighter financial management."

Few companies are as capital-intensive as CEZ. The general pattern has been for loss-makers to be slimmed down rather than closed. Few workers have been sacked. Most have just walked away from low-paid, boring jobs and found new employment in the booming construction, hotel and catering, retail and distribution, banking, tourism and other sectors. A growing number have become self-employed or work for the fast-growing private start-up companies.

The Czechs are slower, more cautious and less entrepreneurial than the Poles, who have taken to capitalism like a duck to water. But the country now boasts a growing number of private companies and entrepreneurial business types.

The rate of job creation in the private sector is such that labour shortages and rapid labour turnover are now a growing concern. Mr Jan Havelka, head of Czechinvest, the government's inward investment promotion agency, says that one in five Czechs changed his or her job last year. As a result the Prague region, where 60 per cent of the GDP is produced, has turned into a magnet for foreign workers, especially Ukrainians, Serbs and other escapees from the Yugoslav imbroglio.

The real question for Czech economic managers is not how to preserve employment and social peace but how to speed up the liquidation of hopeless enterprises so as to free labour for more productive use in sectors now facing skill shortages.

■ FOREIGN INVESTMENT

Setbacks lead to reassessment

The Czech Republic's political stability and a consistent economic policy, pursued by a group of technocratic politicians with the zeal of true converts, has made the country a favourite of foreign investors.

The government of Mr Vaclav Klaus has created a pro-reform consensus that has seen markets deregulated, state enterprises wholly or partly sold off, and the completion of a huge privatisation programme that has turned the Czechs into a nation of budding bourgeois capitalists.

One of the rewards has been the granting of coveted investment grade status to the country by the international ratings agencies. The Czech Republic is rated BAA3 by Moody's and BBB-plus by Standard & Poor's.

Since 1990, and especially since 1992 when Mr Klaus became prime minister, foreign buyers have taken substantial stakes in the country's automotive, tobacco, food and construction industries. A total of \$2.7bn in foreign direct investment was committed by the end of September this year, with expectations of \$3bn by the year-end. This is less than half the levels seen in Hungary, where privatisation has moved much more slowly, but more than Poland, which has four times the population but is seen as more politically unstable.

> Investment has been attracted without offering tax breaks or other incentives – an approach that has paid off

Significantly, the Czech Republic has attracted this level of investment without offering tax breaks or other incentives. On the contrary. "Why should we subsidise foreign companies to compete unfairly against Czech companies?" Mr Klaus provocatively asks those who urge such measures. It is an approach that is paying off. CzechInvest, the agency for foreign investment, says that serious foreign investors appreciate the absence of incentives, seeing this as further evidence of the government's commitment to the law of the market.

The biggest and most crucial foreign investor to date is Volkswagen, which bought 31 per cent of Skoda, the Czech carmaker, in 1991. Europe's biggest carmaker is due to raise its stake to 70 per cent by the end of 1995. Confirmation of the eventual handover of control to Volkswagen was agreed this year after a difficult renegotiation of the original 1991 agreement. This followed the German carmaker's embarrassing abandonment of earlier plans to invest up to Dm9bn in Skoda by the end of the decade.

Other big investors include Philip Morris, which spent \$420m buying 80 per cent of Tabak, the Czech tobacco monopoly, and modernising production at its Kutna Hora facility; BSN and Nestlé. The latter bought into Cokoladovny, a confectionery maker, in a joint venture in 1992 and now controls the company. Another big investor is ABB, the Swiss-Swedish engineering giant, which employs 6,000 people in Brno, the country's second city, in a range of power engineering and electronics products ventures.

US multinationals have also been substantial investors in the fast food and consumer goods sectors, but investment is not confined to the household names. Earlier this year, for example, the small US pharmaceuticals group Ivax bought majority control of Galena, the second biggest pharmaceutical company.

Success is now bringing new problems for foreign investors. Czech attitudes, especially in political and business circles, have altered as company managers come to terms with the mechanics of restructuring. Some high profile deals with foreign investors have come spectacularly unstuck.

The trigger was Volkswagen's scaling back of its plans for Skoda, which threatened to make the Czech venture a mere sideshow in the Volkswagen group and cause large-scale redundancies at its Mlada Boleslav plant. Putting a brave face on what has undoubtedly been a severe embarrassment for the government, Mr Vladimir Dlouhy, the trade and industry minister, defends the renegotiated agreement, though its terms have not been revealed. In hindsight, he says, the original deal was too optimistic. "There were mistakes on both sides in signing the original agreement," he adds.

The Volkswagen setback was followed in March this year by the withdrawal of Air France from Czechoslovak Airlines. Air France and the European Bank for Reconstruction and Development each bought 19.1 per cent stakes two years before in a \$60m investment. After a lot of haggling, an exasperated government bought out the French stake and began looking for Czech backers to provide support for the heavily indebted airline.

These setbacks, and controversy over the future of the petrochemical industry, have led many Czechs to reassess the merits of foreign investment. The country's success in other areas of economic reform, especially in coupon privatisation, sent expectations soaring, but the foreign investment controversies were a blow to national pride.

There could be danger ahead. "We are now in a period of euphoria over our own success – we risk overestimating our own capabilities," says Mr Jan Havelka, chairman of CzechInvest. Western bankers in Prague dismiss the notion that the Czechs can complete the task of restructuring without foreign capital. Huge areas of the economy, including such industries as banking, brewing, energy, mining and metallurgy, are heavily undercapitalised and unable to finance restructuring on their own.

A big test of the new mood towards foreign investment will come early next year when the government decides on a strategic partner for SPT Telecom, the telecommunications company in which the state is selling a 27 per cent stake for around \$1bn.

The deal is shaping up to be the biggest one-off investment yet in the country, as well as the biggest telecoms deal in eastern Europe. Mr Karel Dyba, the economy minister, is overseeing the tender and has promised to run an open and transparent process, partly to restate a commitment to foreign investment and partly to shake off allegations of shady dealing in earlier privatisations where transparency took a back seat.

Away from the big deals, some private Czech companies are looking to raise new capital directly by wooing international institutional investors. Mr Ivo Lurvink, head of CS First Boston in Prague, says foreign investors are looking increasingly at emerging industries such as media and entertainment rather than at established sectors which still have much restructuring ahead of them.

An additional factor that will enhance the Czech Republic's attractiveness as an investment location may come about as early as next year when the koruna, the national currency, is expected to become fully convertible. The Czech National Bank is pushing for the move early, but is facing opposition from Mr Klaus.

> The national bank is pushing for the koruna to become fully convertible, but the prime minister may wait until 1996

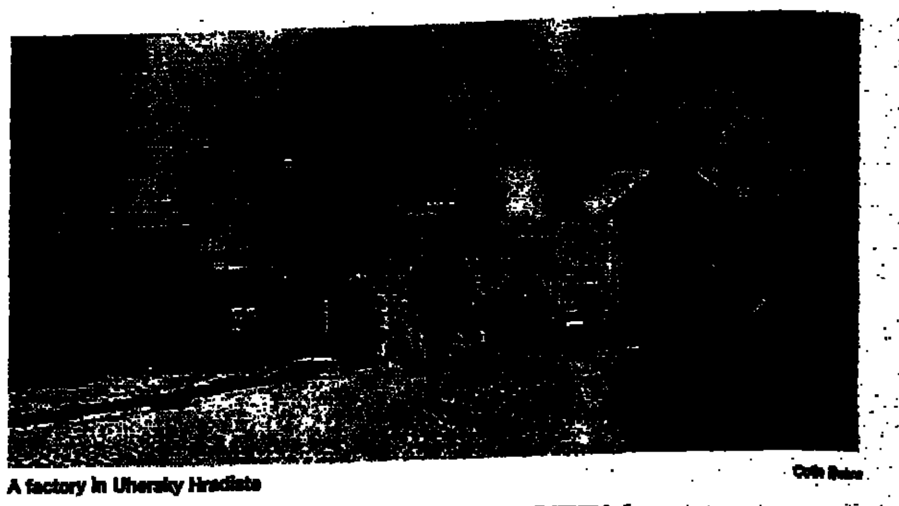
The currency, widely considered undervalued, is expected to jump against the dollar and D-mark in the event of full convertibility, hurting the country's booming exports in its newly-won and valuable western European markets. "Czech goods compete on price, not on quality," says Mr David Svojitka, head of treasury at Bayerische Vereinsbank in Prague.

Large inflows of speculative capital attracted by high interest rates and the chance of koruna appreciation sent the money supply soaring to 20 per cent by October and are threatening to push inflation above the CNB's target of 10 per cent for the year. This type of capital inflow, with its destabilising potential, has received the particular wrath of the government.

Mr Klaus is understood to want to leave the question of convertibility until after general elections in 1996. By then, the proposed sale of the SPT Telecom stake and a potential \$700m investment in oil refining by a consortium of Shell, Agip, Conoco and Total will have been decided.

Future attention is expected to focus on the hundreds of newly privatised and start-up companies which are in desperate need of fresh capital and good management to turn the promise of privatisation into a reality. Potential investors are now scouring the provincial towns and villages for hidden jewels whose turnaround will be profitable for them, and good for the continued health of the economy.

Vincent Boland



A factory in Uhersky Hradiste

■ STEEL INDUSTRY

Vitkovice is afloat without a life-raft

Communists in general, and Comrade Stalin in particular, were obsessed with steel. It was an obsession that lumbered former Czechoslovakia with dozens of smoky steel plants, and an enormous industrial restructuring problem when communism fell.

The Czech Republic alone has over 20 steel and metallurgy companies, and many will not survive. Vitkovice, the republic's largest integrated steel and engineering complex, is determined to be one that will pull through. Mr Jaroslav Dusilek, Vitkovice's finance director says bluntly: "We will not close down."

Two years ago, he was not so sure. Like much of Czech heavy industry Vitkovice, based in Ostrova, northern Moravia, had drawn up a reconstruction plan which relied heavily on government funding. But soon after the June 1992 elections, the new government, headed by Mr Vaclav Klaus, made it abundantly clear that such companies would have to swim along without the aid of a government life-raft.

Vitkovice, which has to produce at an optimal level of 1m tons of steel and core products to survive, was forced to jump in at the deep end. It has already shed 16,000 employees since 1989 and its current workforce of 23,000 is targeted to fall to 18,000 by the end of the decade. While reducing the labour force, mainly through voluntary retirement, it is also planning to reduce its dependency on steel production and boost its engineering division.

The company has invested Kc1.5bn a year since 1992, much of it on a Kc2.4bn continuous slab caster to modernise steel production. But it is also saddled with heavy environmental costs, currently Kc200m annually, to reduce hazardous discharges and waste.

Mr Dusilek claims that Ostrava, a bleak industrial city of 330,000 people dominated by the sprawling Vitkovice plant, is "cleaner than Prague". Yet neither is particularly clean, though better than they were in communist times when ecological concerns were not an overriding factor.

Steel production currently accounts for 56 per cent of Vitkovice's total output, but is scheduled to decline to 45 per cent by 2003, according to a new strategic plan which has just hit Mr Dusilek's desk. The company's main product is hot rolled thick plates used in shipbuilding and boilers. It also makes long products such as seamless tubes used by the oil industry.

Its engineering division, which currently accounts for 30 per cent of total production, concentrates on marine crankshafts, of which it claims to be one of the two leading world producers with 16 per cent of the global market. It also makes components for nuclear power plants, and was the main supplier of such products to Soviet-designed reactors until 1989.

Since the collapse of Comecon, Vitkovice has had to fight hard for new markets. This has inevitably brought it into conflict with western steel producers, which invoked anti-dumping clauses to restrict exports of seamless tubes and other products to European Union markets.

Mr Dusilek denies allegations that Czech and Slovak steel makers, and seamless tube producers in particular, are guilty of dumping products in the EU. When lower labour costs and depreciation are excluded, "all our costs are at international market levels," he says.

The biggest proportion of Vitkovice's output is still consumed by local engineering industries. But the company now exports 47 per cent of total production, of which 55 per cent goes to the EU, mainly Germany, and a third to Slovakia.

Until the collapse of communism 30 per cent of the company's production, mainly engineering products, was exported to Comecon markets, with the rest sold domestically. The great difference today is that its new customers pay for what they receive. Vitkovice lost Kc1bn in 1993 after being forced to write off unpaid debts by former Soviet customers.

Meanwhile, Vitkovice is benefiting from the end of the recession in the steel industry worldwide which is pushing up export prices and volumes. Profits this year are expected to reach Kc400m. In the 10 months to October, it reported turnover of Kc18bn and sales of Kc12.7bn, of which Kc6bn was exported.

Rising profitability is essential if the company is to earn enough to complete its restructuring plans. Much of Czech heavy industry is still largely state-owned, but the recently completed second wave of coupon privatisation included blocks of shares in many "difficult" industries, including steel.

Vitkovice was included in the wave, with almost 25 per cent of the company's shares sold to private investors. Another 5 per cent is owned by the city of Ostrava, which depends on the company for its own survival. The state retains two-thirds.

Vitkovice has tried to woo a partner among western steel companies, and hired UBS Phillips & Drew in 1992 to draw up an "information memorandum" to sell the company's divisions to potential investors, including British Steel and Thyssen.

That move coincided with the worst of the recession in the world steel industry, and so far there have been no takers. Vitkovice is now trying to secure long-term co-operation agreements which may include an equity partnership. It is hoping that the improved international outlook for the steel industry will help.

What potential investors will be buying into is the Czech Republic's third biggest company, with a colourful past and a potentially prosperous future as industrial growth resumes, provided it can complete its modernisation while its low cost base gives it a price advantage.

It may be the only steel company in the world to have been founded by an archbishop. In 1828 Rudolf Jan, archbishop of Olomouc in central Moravia, built a smelter in Vitkovice, which was then a tiny village. Jan was a member of the Hapsburg dynasty, and owned ore mines in Sweden and coal mines in the Ostrava region.

The plant was bought in 1843 by a branch of the Rothschild family, and remained in their hands until it was seized by the Nazis in 1939. The state of Czechoslovakia settled with the Rothschilds in 1947, so that Vitkovice was not subject to restitution after the Velvet Revolution.

Earlier this month, the Rothschild family resumed its severed connection with the Czechs when Sir Evelyn de Rothschild came to Prague to sign a joint venture agreement between N.M. Rothschild and Ceskoslovenska Obchodni Banka. For Vitkovice such agreements could augur foreign investor interest even in sectors such as steel, where the future looked so bleak three years ago.

Vincent Boland

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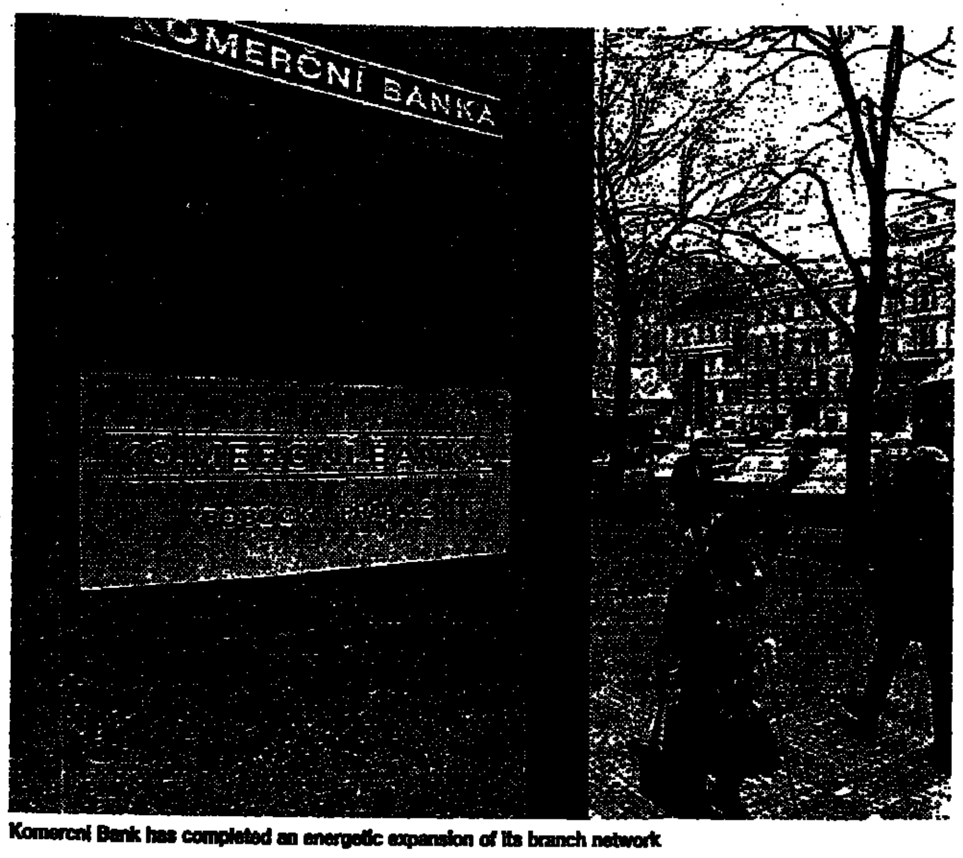


Komercni Bank has completed an energetic expansion of its branch network

Nicholas Denton on the banking sector's health

Where success breeds success

At first glance, banks in the Czech Republic radiate good health.

Three of the largest, Komercni, Obchodni and Investnici, recently broke the emerging markets equivalent of the four-minute mile. They raised or are raising syndicated loans internationally at less than one percentage point over the London interbank rate: much less, at a spread of 65-70 basis points.

These low borrowing rates owe much to the international reputation of the Czech economy. But the banking system itself takes some of the credit. The Czech Republic dealt early with the overhang of bad loans.

From 1991 on, banks hived off bad loans into a new institution, Konsolidacni Banka. They cleaned up their balance sheets before the problem overwhelmed them. The central bank said their capital should exceed 6.25 per cent of assets by the end of 1993 and the banks have met the target.

Czech banks are in confident mood. Komercni and Investnici, corporate bankers, and the savings institution Ceska Sporitelna began with specialist roles but each is invading the others' patches with gusto. Komercni has completed an energetic expansion of its branch network and Investnici has bought into one by taking over Postovni, the post office bank. Sporitelna is seeking to build a leading capital markets business on its cheap funding base.

They follow less the example of the Anglo-Saxon lenders and more the powerful universal banks of neighbouring Germany. Their fund management companies have also grown through voucher privatisation and have made the banks indirect investors, as well as lenders.

Influence on the board through seats held by fund management companies has safeguarded banks' lending relationships, some believe. Mr Alex Angell of brokers Wood & Co says: "That's why you see so little capital markets and corporate finance activity in this market. Czech banks want to keep the business for themselves."

Banks have shown strong results at the operating level. The government has pursued a deliberate policy of tolerance for high margins. The spread between borrowing and deposit rates, while falling, still stands at 6 per cent. Nor has this implicit subsidy all been frittered away on irresponsible lending. Better lending discipline is demonstrated by one key statistic: new loans after the revolution make up 90 per cent of Komercni's portfolio but only 20 per cent of bad loans.

It sounds too good to all be true in a region where bank failures and bail-outs have been endemic.

Even if big banks' bad debts are well covered now, they could easily deteriorate. One westerner who has worked closely with a large Czech bank says: "Success is always measured in terms of bigness or being first with a product. I keep telling them: our job is to make money, we are not a utility.

"There is no credit culture that pervades the bank. There is still no deterrent to making bad loans. You don't get fired if it happens."

Ownership of stakes in borrowing companies can also be a source of potential problems. "Banks are wearing two hats here. They obviously take a dim view of getting tough on clients when they are share- holders," says a western investment banker.

Nor does a shareholding always stave off competition for lending business. Suitors surround CEZ, the electricity utility. And Komercni, for instance, lost the Czech tobacco company as a client when it was taken over by Philip Morris. Citicorp was the beneficiary. Margins are also coming under pressure as western banks make inroads into the Czech corporate market.

The Czech banking policy has been expensive. Mr Ales Barabas, board member of Zivnotenska Banka, says: "The government is pumping money into the banks, don't worry. It is just that here it is not public."

The foundation of Konsolidacni was in itself a pre-emptive bail-out. The Czech government's liberal distribution of guarantees on corporate loans also reduces banks' need to provision and boosts capital.

Three small banks nevertheless failed earlier this year. Agrobanka, the fifth largest bank, applied international standards to its accounts and discovered that provisions had wiped out its capital in 1993. Further bank failures are a distinct possibility. "My guess is that there is a much larger hit looming than has been acknowledged," says one western adviser.

> **Smaller banks face a brutal realisation that full provisioning will totally exhaust their capital**

The Czech National Bank classified loans more rigorously than ever before for its September data and found that 35 per cent are bad, compared with 22 per cent as measured before.

When the Hungarian authorities conducted their first in-depth analysis of banks' portfolios they found that the two largest commercial banks had negative capital equivalent to about 8 per cent of assets and were technically insolvent. The Czech National Bank refuses to give adjusted figures for capital adequacy. Mr Ota Kaftan, head of supervision at the central bank, says only: "It is not a catastrophe."

The large banks claim they have already moved over to international accounting and so the change in calculation does not apply to them. Komercni says it made the shift in 1992 and now has met the Basle recommendation of 8 per cent capital adequacy.

But other, smaller banks face a brutal realisation that full provisioning will totally exhaust their capital. Even Mr Kaftan admits: "There could be some banks in the system which could have negative capital adequacy."

Leading banks stand to gain from a flight of deposits to quality that a further wave of bank failures would prompt. But those which lend on the interbank market such as Ceska Sporitelna will be hit. Wood & Co says Sporitelna suffered an estimated Kc4bn loan loss to the three small banks that have already gone bankrupt. Three more banks are considered at risk and Price Waterhouse, Sporitelna's auditor, has commented that Ks4bn worth of provisions may not be adequate.

Despite the prospect of further loan losses and a tightening of capital adequacy calculations, Mr Kaftan is adamant that the Czech banking sector will reach the 8 per cent ratio by the time the country applies to join the European Union in 1996.

So far, Czech banks have proved able to restore their capital through rights issues on the Czech stock market and issuance of subordinated debt. Komercni raised Kc8bn in March and Ceska Sporitelna Kc7bn in September.

Mr Ales Barabas, board member of Zivnotenska Banka responsible for the bank's investment fund, says: "To be honest, I'm surprised that the rights issues are running so well. I personally would not participate." But success breeds success, and as long as Czech banks can keep up the appearance of solidity they should be able to fund themselves out of crisis. Ultimately, it is all a matter of confidence.

Foreign reserves (US$bn)

	1993	1994							
	Dec 31	Mar 31	Jun 30	Sep 30	Oct 30*	Nov 30*	Dec 1*	Dec 2*	Dec 5*
Official reserves	3,871.8	4,585.6	5,170.4	5,416.6	5,861.6	5,819.0	5,793.0	5,727.5	5,723.0
Gross reserves	6,244.6	6,873.3	7,656.0	7,803.7	8,473.6	8,432.7	8,438.9	8,329.5	8,295.9
Liabilities	1,841.0	1,669.2	1,362.2	943.5	1,192.3	1,009.6	1,106.8	1,052.9	1,058.5
Net international reserves	4,403.5	5,204.1	6,293.9	6,860.2	7,281.3	7,423.1	7,332.1	7,276.6	7,237.4

*estimate

Source: Czech National Bank

Profile: WOOD & CO

Honest broker strikes gold

Prague, Budapest and Warsaw teem with young westerners seeking fame and fortune on the new business frontier. They have taken up the latest career advice: Go east, young man, writes Nicholas Denton.

Only a few have struck gold. One of them is Richard Wood. He came to Prague with no particular plan and no Czech connections. Aged 34, he is now managing director and main shareholder of the Czech Republic's top independent brokerage house, Wood & Co.

Richard Wood: the firm's main asset is its reputation

His is no rags-to-riches story. Mr Wood was a vice-president at Salomon Brothers in London, specialising in sales of fixed income derivative products. He brought to the Czech Republic his last, bumper bonus, a relationship with Salomon and City contacts. Not to mention a taste for green braces and salmon-pink shirts.

It has been, nonetheless, an adventure. What more dramatic time to make the break than New Year's Eve as 1989 turned to 1990 with eastern Europe's revolutions playing on the television screens. "It was like getting on the Mayflower and going to America except it was only an hour and a half away," says Mr Wood.

When Czech voucher privatisation began, Mr Wood toyed with the idea of setting up an investment fund. Everybody was doing that, but nobody was getting set up to broker between the funds. That's what Mr Wood did.

Wood & Co's key advantage is that it is independent. Other domestic brokers are owned by banks which also control fund management companies. "Richard has been very smart. He has established a niche business as honest broker between the investment funds," says Mr Nigel Williams, managing director of Creditanstalt Investment Company, and another City boy who has made it in the Czech Republic.

Wood & Co has also brought to the Czech Republic a western focus on the client and reputation. "Our Czech salespeople here actively develop relationships with Czech fund managers," says Mr Wood. There are always rumours that brokers trade on the back of their clients but most believe Mr Wood's passionate assertion that reputation is the firm's most important asset. It is particularly powerful in eastern Europe, where capitalism is often synonymous with the quick buck.

Honesty in a crooked market can be expensive. Wood & Co struck a deal to buy shares for a client. The seller saw the price was going up, reneged on his deal and sold to someone else for 10 per cent more. Wood & Co had to fork up the difference. The company sued but could not convince the court that a person's word should be a bond. The broker estimates his company has lost $1m this year from settlement failures. "At times we've almost wiped ourselves out to deliver securities," he says.

Nevertheless, Wood is now a port of call for western funds investing in the Czech Republic. The company estimates it handles about 40 per cent of brokered equity trading, more than any competitor.

In recent weeks it has set up operations in Warsaw. This pan-Slav strategy has distinct practical advantages: Czech and Polish are similar. Analysts can visit companies in the other country and more or less communicate.

Wood & Co's local experience and growing regional network give it a powerful competitive edge, but eastern Europe's stock markets are maturing. At the moment, emerging market funds, hedge funds and private investors are the most active players. Over time, a wider circle of institutional investors, including risk-averse pension funds, will include the region's shares in their portfolio.

Wood & Co will need an alliance with an international investment bank to reach that market. "Together with a western institution we could do more," Mr Wood admits. There have been approaches and he appears open to them. A tie-up would close a chapter in Richard Wood's east European adventure. It could also leave him seriously rich.

Czech attitudes on citizenship for gypsies come under fire

A blot on the conscience

"The gypsies are vermin. We should put them on trains and move them out. People here prefer the skinheads, ask anyone."

This was how a news vendor reacted in the picturesque town of Pisck in South Bohemia earlier this month when 14 skinheads were acquitted over charges arising from the death of a 17-year-old Romany (gypsy) boy. He was expressing a widely-held view which reflects badly on the Czech reputation for tolerance.

The Czech Republic enjoys a good press as a model of how a post-communist state should be run. Mr Vaclav Klaus, the prime minister, has shown himself to be a hard-headed and sophisticated leader, fully alert to the country's economic needs. President Vaclav Havel enjoys a worldwide reputation as a champion of liberal values. The country's image shines in a region beset by communist comebacks and re-awakened ethnic conflicts.

> Almost all the Romany population, estimated at over 250,000, have been classified as Slovaks, although two-thirds were born on Czech territory

However, treatment of the Romanies, the republic's only sizeable ethnic minority, not just by skinheads, but by the government itself, is a source of growing disquiet. An American diplomat told an international conference in Warsaw in September that Czech policies over citizenship were creating "a humanitarian crisis in the heart of Europe".

Since July this year, some 100,000 Romanies have been stripped of their Czech citizenship. A new law, enacted after the split with Slovakia in 1993, classifies almost all the country's Romany population, estimated at over 250,000, as Slovaks, although two-thirds were born on Czech territory, and the rest were moved from Slovakia by the communists, usually forcibly, after the war. They were mainly employed as manual labour in an area depopulated by the post-war expulsion of Sudeten Germans.

To qualify for Czech citizenship, those now classified as Slovaks had to meet several difficult conditions, including proof of registered residency and a clean criminal record. Many failed as they had to overcome a bewildering mass of bureaucratic hurdles and thousands are illiterate.

Although the vast majority of Czechoslovak Romanies gave up their nomadic lifestyle about 350 years ago, they have continued to live on the margins of society. Unable to form an effective political lobby and with few powerful friends, they have made easy targets.

Ms Ina Zoon, of the Tolerance Foundation, a Czech human rights group, argues that the citizenship law "was designed in a discriminatory way and directed against the Romany people".

Many Czechs view Romanies as troublemakers and criminals, heavily involved in prostitution and other unsavoury professions. But others say it is unfair and ironic for Romanies to be singled out for their supposed criminal behaviour, when Czech society as a whole is plagued by corruption scandals, and cheating and petty theft are widespread.

However, Romany pickpocketing gangs and pimps tend to be visible. Crime committed by non-Romanies may be more sophisticated and the police are often less vigorous in their pursuit of it.

> Non-citizen Romanies were deprived of the right to vote in last month's local elections. They have also seen social benefits withdrawn

Since July, Romanies without Czech citizenship have been deprived of some key rights, including the right to vote in last month's local elections. They have also started to see their social benefits withdrawn.

Not only Czechs, but the international community at large has traditionally shown a lack of concern about the estimated 6m Romanies who now comprise the largest stateless minority in Europe. They are a distinct people who have preserved their own language and culture since migrating to Europe from India in the 10th century. But they are often seen in terms of crude stereotypes – as thieving vagrants, fortune-tellers or picturesque figures out of Bizet's *Carmen*.

Recently, however, a number of international organisations have begun to take note of their plight and Czech citizenship policies are under fire. In October members of the US Congress wrote to Mr Klaus urging him to secure a change in the citizenship law, which they described as "the most extensive revocation of citizenship since the end of the second world war". Mr Max van der Stoel, the CSCE High Commissioner on National Minorities, also "strongly urged that such legislation be changed".

A great cultural divide exists between Czechs and Romanies. The latter are stuck at the bottom of the social ladder, but so far the government has brushed aside criticism. Mr Klaus described the congressional letter as "insignificant. Tens, if not hundreds, of letters come to my desk everyday," he declared. Even President Havel has publicly defended the law. Jiri Payne, head of the Czech Parliament's Foreign Affairs Committee, says: "Critics of the law don't understand exactly how it is in our country."

For Mr Klaus, the primary motivation behind the law may be a wish to remove what he perceives as an economic drain and an obstacle on the headlong path to prosperity. But there are also political advantages to be gained by pandering to the widespread and often crudely-stated racism of much of the electorate.

Opinion polls indicate around 75 per cent of Czechs dislike Romanies and 30 per cent believe they should be deported or isolated in ghettos. It is not uncommon for bars and restaurants to display the sign: "No Romanies served". Recently, even public swimming pools have started to ban them.

Where the government and its critics differ is about what should be done. Romany groups now fear the Czech government may try to deport them. Although the government denies this, economic hardships and racism may force many Romanies to try to move to Slovakia, where the Czechs claim they will not have trouble getting passports and citizenship rights.

It seems unlikely, however, that the new Slovak government, which includes anti-Hungarian and anti-minority nationalists, will show much enthusiasm about absorbing them. The danger here is that any border tug-of-war that results could well inflame latent Czech-Slovak tensions as well as harming the image of both countries.

Tom Gross

Salesmen on the Charles Bridge in Prague

Ian Rodger on a power engineering success story

Bridgehead for ABB

The Czech Republic has represented a special opportunity in central Europe for ABB Asea Brown Boveri, the world's largest power engineering group.

For one thing, the country is likely to be a big market for the Zurich-based group's products. Programmes to renovate power generation and distribution infrastructure have high priority in the Czech Republic. For another, the very strong tradition of engineering skills in the country offers ABB a fresh pool of talent to add to its global network.

"There is a strong urge among the people, especially in Bohemia, to get back their industrial strength," says Mr Erik Fougner, ABB's country manager in the Czech Republic.

ABB's advance into the republic began in 1990, and the group has been an active participant in the privatisation process. To date, it has established six operating subsidiaries mainly based on existing Czech companies, some of them in joint ventures.

> Exports from the Czech Republic now amount to about a quarter of turnover with imports at about the same level

The most important of these is ABB Prvni brnenska strojirna Brno (ABB PRS), based on the First Brno Engineering Works, a power engineering company dating from early in the 19th century.

ABB and PRS established their joint venture in April 1993, taking the core of PRS's boiler, turbine and power plant operations and 3,800 employees. ABB has a two-thirds stake.

Last year, ABB also acquired EJF, a Brno-based maker of switchgear for all voltage levels. Its other Czech subsidiaries include ABB Energo, a supplier of power transmission and network control systems, ABB Lummus Chemoproject, which supplies engineering services and ABB Elektro-Praga, a producer of household electrical fittings. In addition, a division was set up in 1991 to sell ABB's process instrumentation, robots and AC and DC drives.

Altogether, the group employs just under 7,000 people in the Czech Republic and operates 13 factories. No business figures have been published, but Mr Fougner says new orders totalled approximately \$220m in the first half of this year, as much as in the whole of last year.

Except for Elektro-Praga, all of the group's activity is directed at the large-scale power generation and distribution market. It has not attempted to bring its railway locomotive business to the republic.

Mr Fougner points out that strict new anti-pollution laws come into force in the Czech republic in 1998, so the potential for contracts to clean up or renovate existing power plants is considerable.

The group has just won an order to install its new pressurised fluidised bed combustion (PFBC) system to renovate a coal-fired plant at Trebovice, and Mr Fougner hopes for many more such contracts.

The group's Czech companies are also very quickly winning themselves roles within the overall ABB organisation. Mr Fougner says that exports from the Czech Republic now amount to about a quarter of turnover with imports at about the same level. He expects exports to rise to 40 or 50 per cent of turnover and for the Czech companies to become net exporters.

ABB has transferred technology in several areas – boilers, turbines, coal combustion, medium voltage switchgear, engineering tools and household fittings – to its Czech companies. PRS has been designated the group's single European supplier of waste heat boilers.

The priority now is on bringing the companies' performance up to western standards, in terms of productivity and quality. "We are getting very close, although the mix of capital and labour is not the same as in the west," Mr Fougner says. All the companies are in various stages of earning their ISO 9001 certification, and all but one are expected to have it by the end of next year.

ABB's Czech companies have not been too badly hurt by the separation of Slovakia. Most of the operations were on the Czech side. ABB's Czech offices are no longer responsible for Slovakia, although that country remains an important market for many of the Czech companies' products.

Relations with ABB subsidiaries in other central and eastern European countries are at a formative stage. Poland is the only other country with a substantial ABB presence, with Russia coming up quickly.

Other large Swiss companies have ventured into the Czech republic in the past few years.

The foods group Nestlé was a pioneer, joining forces with BSN, the leading French food group, in 1992 to take over the country's biggest food producer, Cokoladovny, with 8,000 employees in 15 plants across both the Czech Republic and Slovakia.

There was speculation at the time that Cokoladovny would be split up in a few years, with Nestlé taking the confectionery business and BSN the biscuits. This has not yet happened, and Nestlé indicates the existing arrangement is still working well.

Holderbank, the Swiss-based cement group, is one of five leading western European cement makers that have invested heavily in the Czech Republic in recent years, partly to prevent exports from the country upsetting western European markets.

Ceva Prachovice, the Holderbank subsidiary, suffered a 12.5 per cent decline in volume sales of cement last year to 1.06m tonnes, and market conditions continue to be difficult. Mr Thomas Schmidheiny, chairman, said last month that operations in eastern Europe were making only "a very modest" contribution to profit.

A more unexpected source of large Swiss activity in the Czech Republic is the publishing industry. Ringier, one of Switzerland's biggest publishers, produces Blesk, a highly successful saucy tabloid newspaper in the republic as well as Profit, a popular business newspaper and some 20 other titles.

Mr Jürg Marquard, another Swiss publisher who has expanded in eastern Europe, publishes Czech versions of the pop culture magazine, Popcorn and Divka (Girl).

The people of Moravia

Where obscurity seems bearable

The people of Moravia, who inhabit the eastern part of the ancient lands of the Czech crown, share some of the frustrations long felt by the Slovaks when they formed the tail of the now defunct federal country called the Czech and Slovak republic.

There was no hint in the old name that Moravians also lived in Czechoslovakia, and there is still no hint of their presence in the name of the Czech Republic. They appear resigned to being overlooked. Following a brief, half-hearted flirtation with separatism after 1989, when new states were cropping up all over eastern Europe, Moravians seem to have accepted the inevitability of living in Bohemia's shadow within the Czech Republic.

The movement that kept alive the idea of Moravian separatism splintered into four factions after the demise of the federation two years ago, when Prague stamped out any lingering hopes that Moravia would follow Slovakia into independence. As the Czech Republic's most heavily industrialised region, contributing more to the national gross domestic product than larger and more populated Bohemia, Moravia's independence was anathema to the government.

Yet Moravians quietly insist on their separate identity. Mr Jaroslav Kupka, vice-president of the Czech-Moravian Centre party, which wants "to renew the historical autonomy of Moravia within the framework of the Czech Republic," cites a 1991 poll which he says showed that most Moravians identify first with their province and second with the state. His party is pushing for the creation of a regionalised state with elected administrations having cultural and educational autonomy and a budget, financed either by subsidy or through local taxes, to pay for it.

Mr Klaus, who is a strong opponent of what he calls the "cantonisation" of the unitary Czech state, is suspicious of any form of local government organisation that would raise the spending power and political autonomy of local authorities and regions. The only concessions to federalism by Prague so far have been the siting of the Constitutional Court and the anti-monopoly ministry in Brno.

Faced with such an uncompromising line, Moravians are keeping their heads down, and the attachment to their province's historical legacy now appears to be mainly sentimental. In local elections in November Moravians voted overwhelmingly for national parties.

In the city of Brno, the province's capital and the country's second city, candidates representing the Civic Democratic party (ODS) of Mr Klaus swept into City Hall, routing the four successor parties to the Moravian separatist movement, whose combined seats fell from 20 to just five. The city's new mayor, Ms Dagmar Lastovecka, is a member of ODS, and many of the city's leading business people are supporters of Mr Klaus.

Moravians quietly insist on their separate identity within the Czech Republic

Only half the population of southern Moravia is truly Moravian, with Bohemians a close second. "We are not a nation," Mr Kupka admits. "Our demands for autonomy are not based on nationalism, but on history."

So Moravia soldiers on in relative obscurity. Asked to name 10 famous Moravians, Mr Kupka is momentarily stumped for an answer. After offering Charles the Elder, an ancient monarch, he eventually comes up with the composer Leos Janacek, Tomas G Masaryk, founder and first president of the interwar state of Czechoslovakia, and the philosopher Jan Komenius. The list may be small, but it is impressive.

A little reluctantly, Mr Kupka ventures the name of the emigré writer Milan Kundera, a Brno native whose penetrating and often deeply funny analysis of Soviet-imposed "normalisation" in Czechoslovakia after the 1968 Prague spring, and musings on the "unbearable lightness of being", have made him a cult figure in the west.

In the west, of course, Kundera is considered a Czech (and possibly a bohemian with a small "b"), not a Moravian.

Vincent Boland

Brno, the country's second city, aims to become a centre for business

Trading post has big ideas

Any city that lives in the shadow of Prague can count on being ignored most of the time. This gives an edge to Brno's attempts to become a business centre in its own right.

For British veterans of the second world war, the city is perhaps best known as the home of the Bren gun. This fast and accurate machine gun was just one of the first-class light armaments for which the Moravian capital is famous. The desire to seize control of the region's arms industry was one of the reasons behind Hitler's decision to annex Bohemia and Moravia in 1938.

The arms industry is now a shadow of its former self, although rebuilding a slimmed-down and modernised arms industry is again considered politically respectable. President Vaclav Havel's high-minded talk of getting rid of the Czechoslovak arms industry after the Velvet Revolution got short shrift in Moravia and Slovakia, where the industry employs thousands.

Many of the best-known names in Czech industry are located in Brno, including Zetor, the tractor maker which is currently going through a painful restructuring process. With its long tradition of engineering skills and its endless industrial suburbs, the city is the Czech Republic's leading centre for transportation and agricultural machinery production. Some two-thirds of Brno's workforce is employed in the engineering, optics and glass industries.

The skills base has attracted significant foreign investment, which is helping old capital-starved industries to restructure and modernise. ABB, the Swiss-Swedish engineering giant, has invested heavily in Brno in the past three years, and now employs nearly 6,000 people at engineering and electronics plants in the city.

Internationally, Brno is probably best known as central Europe's largest trade fair centre

About a sixth of Brno's 390,000 inhabitants are students at its six universities which means a big supply of skilled labour for regional industries, which also include mining, energy and metallurgy.

Internationally, Brno is probably best known as central Europe's largest trade fair centre. The city has been a trading post for centuries, and this year alone more than 1m visitors have attended dozens of fairs at the 750,000sq metre BVV exhibition grounds on the outskirts. The fairs draw exhibitors from around the world, with a greater number coming from the west since the collapse of communism destroyed the Comecon trading bloc.

Mr Bretislav Fabian, sales director at BVV, says the Brno exhibitions "are as important for central Europe as Frankfurt is for the west". The highlight is a giant engineering fair every September, which this year drew more than 3,200 exhibitors from 35 countries.

The city authorities have ambitious plans for reviving derelict areas of the city centre, including the construction of a huge shopping and office complex that will mean moving the city's main railway terminus.

A joint venture between the city, the technical university and the UK construction company Bovis, part of the P&O group, is building a Czech Technology Park on a 120-hectare site on the city's outskirts. Providing high-tech office space for new industries, it will capitalise on established academic-corporate links.

The park has already secured Siemens Telecommunications as its first big-name client, according to Mr James Hoddell of Healey & Baker, which is marketing the development but the entire $200m development is not expected to be finished for at least a decade.

Vincent Boland

Brno: a city in the shadow of Prague

Kevin Done follows the progress of VW's investment in Skoda

Modest planning prevails

The Czech government has been given a bumpy ride by Volkswagen, since it chose the German carmaker four years ago to take control of Skoda, the Czech car producer.

In the euphoria that surrounded VW's ambitious forays into eastern Europe, the group made lavish promises about the scale of the future investment planned for Skoda.

In early 1991 VW said that it planned capital investments totalling DM9.5bn for Skoda by the end of the decade. It would more than double Skoda's production capacity to about 390,000 cars a year and it would build a new engine plant.

Subsequent events have been a sobering experience both for VW and for the authorities in Prague.

The original contract agreed in 1991, which gave VW an initial 31 per cent stake and management control, has been under renegotiation for the past 15 months following Volkswagen's withdrawal without warning in the autumn of 1993 from a prestige DM1.4bn project finance facility for Skoda.

Since the signing of the original contract conditions have changed drastically at VW itself and in the European car market, and the company accepts that its initial planning was hugely over-optimistic.

"There was the thinking that the future could only be bright and clear," admits Mr Volkhard Köhler, Skoda vice-chairman. "But today we can see there are risks . . . When the iron curtain came down there were ideas that you could speed up development, but today it is clear that that cannot happen," he says.

Volkswagen itself was also overcome by the recession in west Europe. It plunged into record losses of DM1.94bn in 1993.

The robust regime initiated by Mr Ferdinand Piëch, the controversial chairman of the VW group management board who was appointed at the beginning of 1993, set out to cut costs to the bone, and the Skoda project has been subjected to the same relentless review as the rest of the group's operations, with little regard to the sensitivities of VW's partners.

But late last month VW and the Czech government initialled a new agreement giving Prague backing for a revised development plan for Skoda and including a commitment from VW to the further development of the Czech automotive components industry.

Under the terms of the deal VW has won approval for a more modest capacity expansion, and it has dropped the plan for a new engine plant. The current capital spending plan totals about DM3.7bn from 1991 to 2000, but this amount can be reduced further if VW can find additional investment cost savings.

Volkswagen has agreed to raise Skoda production capacity to 340,000 a year by the late 1990s from about 230,000 at present. Its plans include:

- A second car range for Skoda, due to be launched in 1996-97. This large family car range will have a unique Skoda body and interior, but will be part of the VW group's ambitious strategy to rationalise its product development and engineering operations. It will derive from the VW's so-called "A" platform, which will also form the basis for the next generation VW Golf.
- Building a new paint plant at Skoda's main production facility at Mlada Boleslav.
- Building a new assembly plant for the second car range.
- Development of Skoda's existing all-aluminium 1.3 litre engine for use in both its planned car ranges and for possible use by Seat, the VW group's Spanish subsidiary.
- The addition next year of estate car and pick-up versions of the new Skoda Felicia small family car range – unveiled in October as the replacement for the outdated Favorit.
- Continued reduction of the size of the Skoda workforce as productivity is raised. It will fall to under 16,000 in 1995 from more than 17,000 last year, and could be reduced by a further 3-4,000 over the next five years.

As part of the new agreement VW has secured full title to the use of the Skoda brand name – previously disputed by Skoda Pilzen, the Czech engineering group – and has resolved all property title disputes over the Skoda plants.

The deal opens the way for Volkswagen to raise its 31 per cent holding to 60.3 per cent by the end of December – including the conversion of preference stock into ordinary voting shares – and to 70 per cent by the end of 1995.

In total, VW will have paid in three tranches DM1.4bn for the 70 per cent stake – DM200m to the Czech government for the acquisition of part of its holding and DM1.2bn in new equity capital for Skoda.

The development of a more efficient Czech component industry was a key element in the original VW acquisition of Skoda, and its renewed commitment to this programme will be part of the new agreement with the government.

According to Mr Köhler "a velvet revolution" is under way in the Czech supply industry. Since VW moved into Skoda nearly four years ago about 40 joint venture components operations have been established, which already supply 44 per cent of Skoda's purchases of materials. A further 6.5 per cent of purchases come from greenfield site operations.

About 80 per cent of Skoda's total purchases of CKr21bn a year are made in the Czech Republic and Slovakia and more than half of total purchases are already coming from suppliers with access to western technology.

VW is now seeking to break new ground at Skoda by establishing supplier operations directly inside the car plant, moving a step head even of the Japanese model of having suppliers grouped in close proximity to the plant.

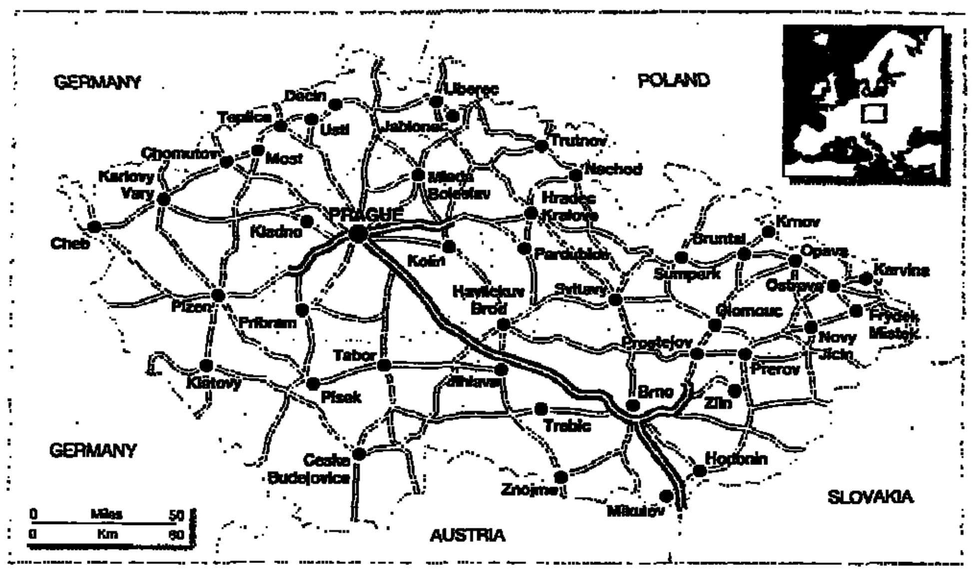
Three suppliers – Lucas, Johnson Controls and Pelzer – already work inside the Skoda plant, producing respectively rear axles, seats and carpets.

Guide books gushingly refer to Prague as the Golden City, but it was a grey and shabby place five years ago when it emerged from four decades of communist neglect.

Apart from a six-lane motorway running along the top of Wenceslas Square, the communists left the city centre structurally more or less unscathed and spent their money building monolithic blocks of *panelak* high-rise apartments in the suburbs.

But by the time of the Velvet Revolution 50 years of neglect had left the city's urban fabric in urgent need of repair. Many monuments and fine buildings were propped up by rickety scaffolding whose main function was to prevent pedestrians being injured by falling tiles or gutters.

Now, thanks to the restoration of private property, private capital is leading a reconstruction boom. Streets that even two years ago were dull and lifeless have been transformed by new shops, restaurants and cafes. The city's generally relaxed atmosphere is immeasurably enhanced by its beauty.



Visitors numbers are swelling, says **Vincent Boland**

Facilities stretched by the tourist rush

The investment is paying off. Tourists are flocking to the Czech Republic in unprecedented numbers, and the industry has become one of the country's biggest foreign exchange earners. In the first nine months of this year, according to the Czech National Bank, 76m people visited the country, more than in all of last year. Tourist earnings in that period also soared to a record $1.51bn, compared to $1.57bn for the whole of 1993.

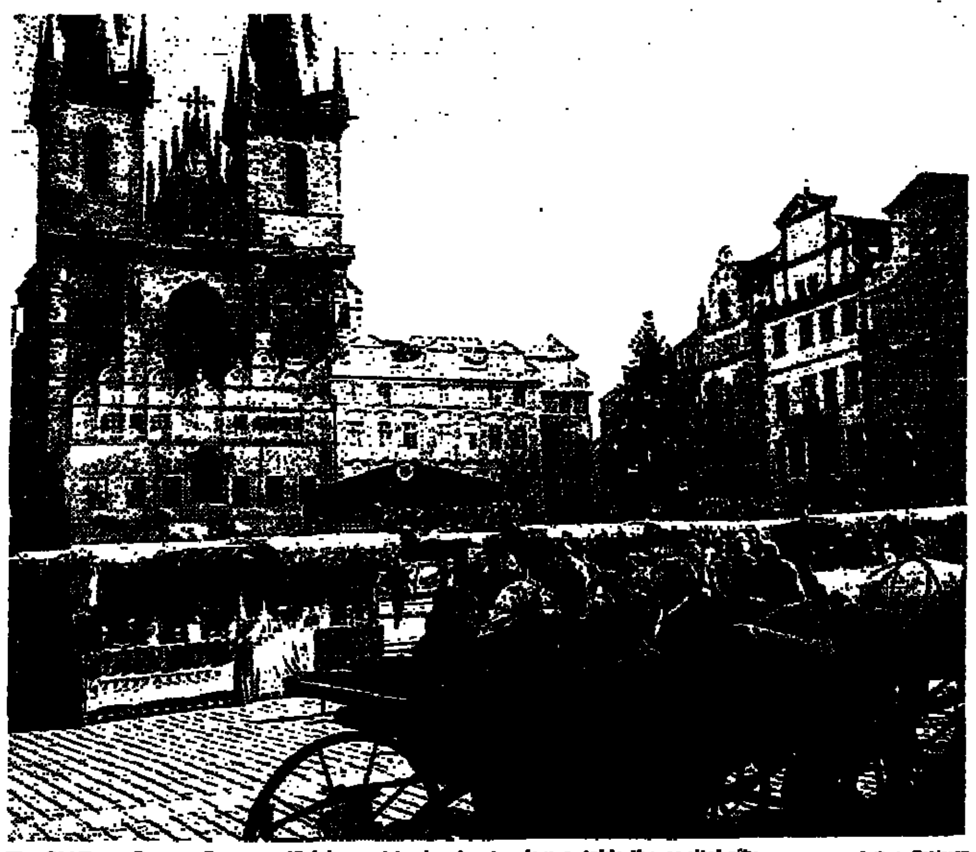
Tourist traffic moves in both directions. Czech tourists spent $900m abroad over the same period, nearly double the amount in all of 1993, although the CNB warns that the figure includes for the first time the value of consumer goods brought back by returning locals.

In 1989, the last year of communist control, tourist receipts amounted to less than $250m. By 1991 the figure had swelled to $700m and exceeded $1bn in 1992. Last year's receipts represent about 5 per cent of gross domestic product and the proportion in 1994 is likely to be substantially higher.

These figures are impressive for a country that on an official level does not take the tourist industry seriously. The Czech Tourist Authority, set up only last year, is run on a shoestring from dingy offices on the Old Town Square, in the heart of Prague's historic centre. It has just seven staff and two offices abroad, in Berlin and Vienna, although more are planned.

Karel Nejdl, the authority's director, says the official attitude is that the Czech Republic already receives enough tourists and that encouraging more would simply push over-stretched amenities to breaking point.

The tourist industry's main problem, Mr Nejdl says, is not government indifference but a dearth of quality accommodation. Prague has 38,000 hotel beds and can count on 12,000 rooms in private accommodation, but many of them are rudimentary. Plans to build at least two new luxury hotels in the city have outraged conservationists, including President Vaclav Havel, who has expressed his dismay at what many see as a threat to Prague's delicate urban fabric.


The Old Town Square, Prague: officials want to develop tourism outside the capital city *Anthony Robinson*

The tourist boom has led inevitably to cases of over-charging and double booking and in 1993 the post-revolutionary surge in numbers appeared to level off. Hotel occupancy rates last year fell to 70 per cent, compared to 80 or 85 per cent in 1991 and 1992. The slump was partly a reflection of the recession but also of exorbitant room prices at hotels that were little better than two or three star establishments. Hoteliers appear to have learned their lesson, and this year prices were pegged at 1993 levels, resulting in a rise in bookings.

The CTA aims to convince visitors that there is more to the Czech Republic than Prague. Many Czech towns are following the capital's lead in renovating their ancient centres, and the country boasts hundreds of castles, many of them in excellent repair.

The exquisite little town of Cesky Krumlov in southern Bohemia, for example, was for years a secret known only to Austrian visitors. Now it is on most tourist itineraries, helped by its designation by Unesco as a site of special architectural importance.

The spa towns of Karlovy Vary (Karlsbad) and Marianske Lazne (Marienbad), in western Bohemia close to the German border, were among Europe's most popular resorts in the days when taking the waters was the aristocracy's favourite pursuit. After falling on hard times during the communist era these quaint little towns are trying to attract the new Czech élite and to wean themselves off the German market on which they are heavily dependent.

Slovakia inherited most of Czechoslovakia's natural beauty when it split from the Czech Republic two years ago. Nothing in the Czech Republic matches the grandeur of the High Tatra mountains in eastern Slovakia. The Sumava mountains in southern Bohemia are scenic and climbable, but their skiing attractions do not live up to the Tatras or the Alps across the border in Austria.

There is also a downside to the Czech tourist boom. Locals, especially in Prague, complain that they can no longer afford to visit the centre of town, where prices have risen in anticipation of high-spending foreigners. A visitor is unlikely to meet an authentic native in the Old Town Square in high summer, excepting those peddling souvenirs. Meanwhile the Prague of bleak suburban high rises where the majority of the city's residents live is definitely off the tourist map.

For many Czechs, however, weekends and holidays mean retreat to the family's country house, which can be a palatial mansion or a little wooden hut in a secluded spot by a river. Living in one of the world's great cities is fine, but it means little unless one can escape from it every now and then.

Vincent Boland's guide to doing business in the capital

Brokers steal the limelight

Those nostalgic for the Prague of dissident playwrights, banned books and smoke-filled bars full of thirsty workers are in for a shock if they visit the Czech capital before the end of March.

The government is selling a large slice of the local telephone monopoly to a foreign investor, and the city is awash with merchant bankers and telecommunications executives hogging the best restaurant tables and talking telephone numbers into cellular phones.

The deal – which promises to be the biggest telecoms investment yet in post-communist eastern Europe, is the high point of a process that has made Prague a magnet for investors over the past five years.

This is a city where the stock market listings have replaced the Samizdat publication as the hottest read in town; where the stockbroker and the corporate lawyer are the people to see; and where a ticket to the opera still costs next to nothing (if the best seats have not been block-booked by a merchant banker entertaining visiting telecoms executives).

None of this is immediately apparent on arrival at Prague's Ruzyne airport. The armed soldiers, glum faces and long queues at passport control suggest nothing has changed, and the drive into the city in an outrageously expensive taxi, past row after row of badly constructed *panelaky* (high-rise housing) is a reminder that, no matter how much the Czechs might like to forget it, this was recently a communist country.

Don't be put off. Once in town the atmosphere is transformed. Prague is full of elegant streets, being brought back to life by new shops, cafes and coats of paint.

The main hotels are scattered between the centre and the immediate suburbs, with the Intercontinental, close to Old Town Square, and the Palace, just off Wenceslas Square, being the most central. The Atrium and the Forum, overlooking the main motorway through the city, are also close enough for a quick trip into the centre.

For something a little more luxurious try the newly opened Grand Hotel Bohemia in the heart of tourist Prague. One of the hotel's main attractions for business guests is a fax in every room, courtesy of communist-era telephone lines once used to bug visiting party officials.

The centre of Prague is dotted with bureaux de change, but to avoid exorbitant commissions change money at the main banks. Banking hours are usually from 8am to 5pm. The Czech National Bank is pushing to make the currency, the koruna, fully convertible by 1995, and it has been stable for the past three years. Current exchange rates are about Kc27.5 to $1, Kc43.5 to £1.00 and Kc17.5 to DM1.00.

The telephone system can be trying (hence the need for new investment). Dialling within the city is easy, but it is more difficult to get through to other parts of the country. International calls are also straightforward but expensive.

Czech time-keeping can be relaxed, but it is better to be on time for business meetings and the working day begins as early as 7am, although business meetings generally do not start until 9am. Bring a good supply of business cards as most people have one, invariably listing the holder's educational qualifications.

Although the business lunch is becoming more common, initial discussions are usually held over coffee or juice in the office. Many Czechs are at least bilingual and English is fast becoming the *lingua franca* among the Czech Republic's business community.

After a day's deal-making it is well worth a look around town. The Golden City, as Prague is known, is one of the most beautiful in the world, with perfect examples of nearly every type of architecture through the ages, many of which are being restored to their original splendour.

Czech food is an acquired taste, with an emphasis on pork, game and calories. Try Au Saint Esprit, the Kampa Klub or V Zátiší for excellent fish (with prices to match), or U modre kachnicky (The Blue Duck) for good Czech dishes. Local wine is cheaper than and just as good as many imported vintages. The Prague Post or Prognosis, both English-language weeklies, give listings for restaurants and entertainment.

The favourite Czech method of relaxation is over a glass of beer in a *pivnice* (pub). Beer is plentiful and delicious and can cost as little as 25p a half-litre in local bars where the emphasis is on serious drinking rather than comfort.

Prague is an easy city to negotiate. Its network of metro, trams and buses is well-integrated but often overcrowded, especially at rush-hour (7-8.30am and 4-6pm). The metro is limited but fast and clean, while the trams can be slow and smelly. Tickets cost Kc6, the fine for not having one Kc200. Beware of taxis: the city's cab drivers are notorious for over-charging foreigners, and can be rude and aggressive to those who argue over the size of the fare.

The city is generally safe to walk around at night, although petty crime is rising. What comes as a shock, however, is the rudeness of store staff, especially if you visit a tabák, for a newspaper or metro tickets. Remember that you are only the customer, and therefore the least important person in the store.

Names and numbers

- Ministry of Economy (minister: Karel Dyba) Staro městské nám. 6, 11015 Praha 1. Tel: +423 24897111; Fax: + 422 24812884
- Ministry of Finance (minister: Ivan Kočárník) Letenska 15, 11810 Praha 1. Tel: +422 24541111; Fax +422 24542788
- Ministry of Trade and Industry (minister: Vladimír Dlouhý) Na Františku 32, 11015 Praha 1. Tel: + 422 2851111; Fax +422 24811089
- Ministry of Privatisation (minister: Jiří Skalický) Lazarská 7, 11121 Praha 1. Tel: +422 24191111; Fax +422 24191760
- Czech National Bank (governor: Jozef Tošovský) Na Příkopě 28, 11003 Praha 1. Tel: +422 24411111; Fax +422 24217865
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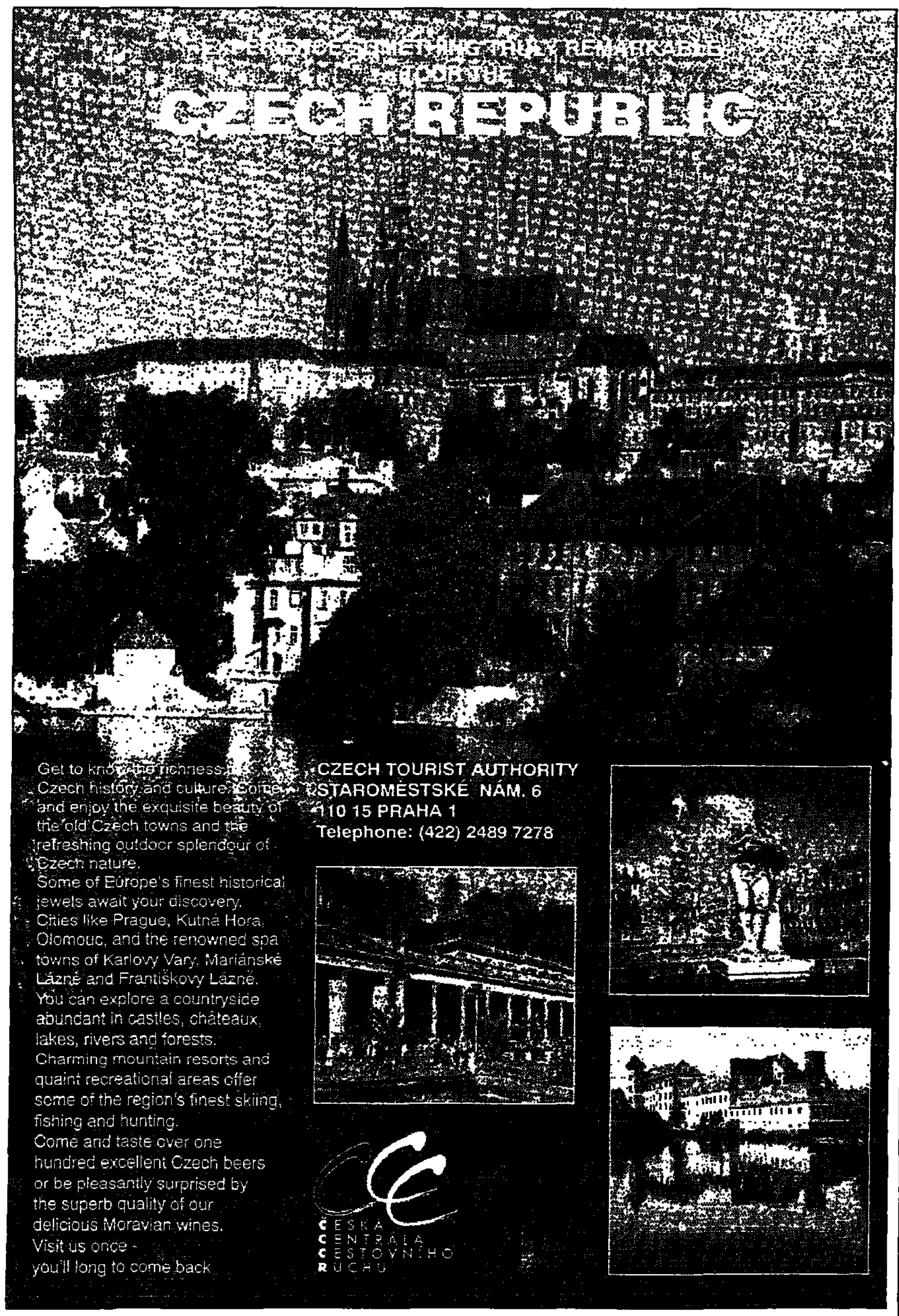


FINANCIAL TIMES SURVEY

SWEDEN

Monday December 19 1994

A watershed decision

The vote to join the EU now settled, attention will turn again to urgent budgetary problems, says Hugh Carnegy

This has been a year of rare drama in Sweden.

In the space of two months during the autumn, the country went twice to the polls. First, in September, the Social Democratic party, led by Mr Ingvar Carlsson, defied predictions of a few years ago that the creator of Europe's most all-encompassing welfare system was crumbling. The party returned to power after three years in opposition when it ousted the right-centre coalition headed by Mr Carl Bildt in a general election.

Then, in a national referendum in November that provoked much fire and feeling, the electorate voted by a majority of 52.2 per cent to 46.9 per cent to join the European Union, a decision which marked the most significant strategic step by neutral Sweden since the second world war.

An essential part of the debate in both the election and referendum campaigns was the state of the economy, which had injected its own sense of drama into the nation's affairs. Although a recovery from a three-year recession at last took hold, the combined effects of the slump and the costs of the country's big public sector left the state with a yawning budget deficit, the fastest-growing debt in the industrialised world and more than 13 per cent of the workforce unemployed.

Beyond the political arena, there were other dramas which stirred the country to an unusual degree. In the summer – the warmest and sunniest since records began – Swedes basked in the glory of the national soccer team's unexpected advance to third place in the World Cup, becoming the competition's top-scoring team in the process.

But just after the election in September, the nation was plunged into a state of shocked mourning by the sinking of the Estonia, the Baltic ferry which foundered in a storm taking to their deaths more than 900 passengers and crew – most of them Swedish. The disaster was unprecedented in modern Swedish history, striking communities all over the country much as a war might do.

Other events rarely experienced in Sweden have contributed to an unusual sense of insecurity. In June, a young soldier shot dead seven people in a crazed shooting spree in the central town of Falun. In November, a teenager was beaten to death by two schoolmates. This month, four people were killed when a gunman opened fire on a crowd leaving a Stockholm night club.

The combination of these different events has reinforced the concern of the Social Democrats, in power for more than 50 of the past 60 years, to restore a sense of equilibrium to the country.

The party's instincts are clearly to rely on its traditional emphasis on creating a unified, egalitarian society underpinned by the universal welfare system. It regarded the 45 per cent share of the vote it won in the election – one of its best recent results – as a clear sign that the electorate had rejected Mr Bildt's appeal to transform Sweden through radical, free-market policies.

But the challenge Mr Carlsson faces is to reconcile the defence of a welfare system with the cuts and reforms he readily acknowledges are required to sort out the public finances and return the economy to stable, long-term growth that will reduce unemployment. Mr Carlsson's immediate priority is, without doubt, the state of the public finances. This crisis struck, ironically, just as the economy was pulling out of recession. An export boom, fuelled by the devaluation of the Swedish krona in late 1992 and the recovery in international markets, has delivered economic growth this year of about 2.5 per cent after three successive years of recession which shrank the economy by 5 per cent.

This year, Sweden's big international companies such as Volvo, Ericsson, Electrolux and the big forestry-sector operators have surged back to high profitability on the back of the boom. Exports are set to continue to grow well in 1995 and there are hopes of a modest recovery in the domestic economy as well, leading the government to forecast gross national product growth next year of 3.4 per cent.

But unless the budget deficit is quickly brought under control and borrowing is stabilised, there are fears that continued high interest rates could precipitate a "double dip" return to recession.

Mr Carlsson and Mr Göran Persson, his finance minister, have therefore set a deadline for stopping the growth of the state debt – presently about 90 per cent of GNP – by 1998 at the latest through a series of tax increases and spending cuts. The budget deficit in the present fiscal year is forecast at SKr201bn, or 13 per cent of GNP; the government has already announced a package of tax rises and savings to reduce the deficit by SKr57bn by 1998 and plans a further SKr20bn cuts in the January budget. The two key questions are whether this will be sufficient and whether it is politically sustainable for the minority government. Many in the financial markets are sceptical that the scale of the spending cuts will be enough in an economy where public spending has reached 70 per cent as a proportion of GNP. They fear that the government has made over-optimistic calculations of the savings it expects from lower interest rates and lower unemployment, based on expectations of a vigorous recovery. They are far from convinced that the post-devaluation bounce in the economy will not turn into another damaging inflationary cycle, as happened in the 1980s.

Ominously for the government, international credit rating agencies are presently re-assessing Sweden's sovereign credit rating. Moody's, the US agency, has warned that it may shortly down-grade Sweden. If it does, interest rates will jump and Mr Persson's budget plans will be put under even stronger pressure.

The markets are also watching political developments very carefully. Mr Carlsson is confident the government can get its policies through the Riksdag (parliament) by charting a "slalom" course, seeking support for a majority on different issues from among the six other parliamentary parties, which range from the Left and Environment parties on the left, through the Centre, Liberals and Christian Democrats in the centre, to Mr Bildt's Moderates on the right. "We are as secure as a formal minority government could be," says Mr Carlsson.

His confidence may be rewarded because there is a strong desire among most parties to see public finances brought back into balance. But Mr Carlsson and Mr Persson first have to persuade their own party supporters and the trade unions to accept public sector and benefit cuts on a scale rarely seen before.

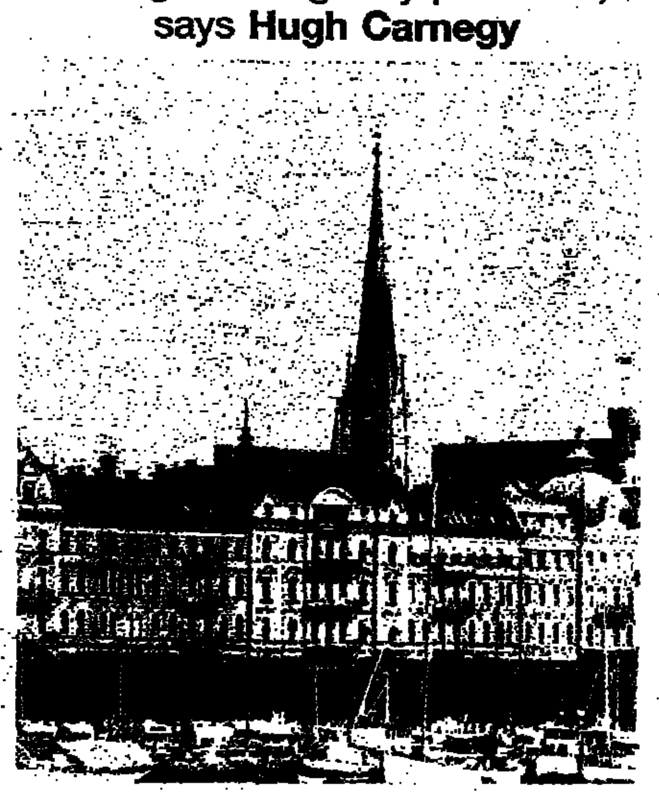
The urgency of the budget battle has tended to overshadow the watershed that will occur when Sweden joins the EU in January. Throughout the post-war period, Sweden stood to one side from western Europe, concerned above all to preserve its neutral stance between the Soviet Union and the US-led western alliance.

With the end of the cold war, those concerns have largely melted away, allowing Mr Carlsson to lead his previously anti-EU party towards Brussels. Sweden – along with neighbouring Finland, but not Norway, which rejected membership – will now be firmly sited in the western European strategic and economic camp.

But Stockholm is proceeding cautiously. The government is holding firmly to military neutrality. It will take up the minimum observer status in the EU's military organisation, the Western European Union; it has joined Nato's "Partnership for Peace" initiative, but has no intention of applying for full Nato membership.

On economic co-operation, Mr Carlsson is being careful to keep his options open, ahead of the EU's planned 1996 review of the Maastricht Treaty, which laid out a timetable for European Monetary Union. He says he favours closer monetary co-operation, but will not be drawn on whether Sweden supports an eventual move to a unified currency.

With Sweden far from meeting the monetary criteria for Emu, its participation is something of an academic question, at least until the end of the decade. But Stockholm will support moves to make employment conditions part of the Emu criteria – a concern that reflects Mr Carlsson's anxiety to put the fight against unemployment at the top of the EU's agenda, alongside the next enlargement project to include central and eastern European nations.



Stockholm is proceeding cautiously on EU military links *Picture: Tony Andrews*

Saab-Scania aerospace factory: Sweden's big international companies have surged back to high profitability

IN THIS SURVEY

Production Editor: Philip Sanders

SWEDEN II

The ministry foresees stable private consumption despite the reduction in household income due to tax increases

Hugh Carnegy examines the economy

Battle to restore prosperity

Three issues have dominated what has sometimes been an anguished public debate about the Swedish economy this year: the budget deficit, the consequent expansion of the state debt and unprecedented levels of unemployment.

The deficit, expected to reach SKr201bn in the current July-June fiscal year, is running at about 13 per cent of gross national product, one of the deepest holes in the public finances of any European country. Borrowing to fill the hole has pushed up state debt to almost 90 per cent of GNP, making Sweden the world's biggest sovereign issuer on international bond markets. This alarming imbalance, the legacy of a three-year recession and an overweighted public sector, has to a significant degree been exacerbated by the need to pay for record unemployment, now running at about 13 per cent of the workforce when those in government-funded training schemes are added to the 8 per cent of workers on unemployment benefit.

These are the figures which attracted most attention in the campaign for the general election in September. The precarious state of the public finances has also led to strong pressure from the financial markets for drastic measures to curb borrowing, which in turn has put added strain on the economy in the form of high long-term interest rates; Sweden pays a premium of 3.5 percentage points in interest on its 10-year bonds compared with benchmark German rates.

For Mr Göran Persson, the new Social Democratic finance minister, the tough task is to forge a transformation from a vicious to a virtuous circle where the deficit is reduced sufficiently to reassure the markets – thereby engineering a cut in interest rates which bolsters a real recovery underway in the economy at large and helps achieve the vital political priority of cutting unemployment.

But even achieving this may not be enough to produce a long-term solution to the underlying structural weakness in the Swedish economy that has seen almost all net job creation in the past two decades come from the public sector as Sweden's famous universal welfare model expanded. Mr Persson must also engineer a reversal of a trend that has seen Sweden slide since 1970 from third place in the world league of GNP a head – then behind only the US and Switzerland – to 16th place.

On the immediate task of sorting out the public finances, the new government has begun to get down to business. To stabilise the debt by the next election in 1998 at the latest, the target set by all mainstream political parties, Mr Persson's team at the finance ministry calculates that the budget must be strengthened by SKr93bn.

In early November, the first step was taken by a package that included tax increases to yield SKr31.6bn and spending cuts of SKr25.5bn. A further SKr20bn in spending cuts is promised in the January budget. With an estimated saving of SKr14bn forecast for the period from lower interest rates, this will yield a little over SKr91bn.

Although in a minority in parliament, the Social Democrats have support from the Left party for the initial package and is confident of securing a majority with the help of right-of-centre parties for the next budget.

The markets have yet to be convinced. They will need to be reassured that the Social Democrats can get approval for budget cuts which will hit the party's bedrock supporters in the welfare system. They are nervous about the costs of an employment package also promised in the budget which is likely at least to include some significant short-term spending. They are also worried that some of the finance ministry's forecasts are over-optimistic.

The ministry is anticipating 3.4 per cent GNP growth in 1995. (This year, growth is expected to be about 2.5 per cent after three successive years of recession.) It foresees stable private consumption despite the reduction in household income due from the tax increases and spending cuts, and a fall in "open" unemployment to below 7 per cent. It also foresees inflation at 3 per cent, just on the upper target limit set by the Riksbank.

Almost all other independent forecasts take a more cautious view. A central concern is that the hoped-for return to growth in the domestic economy will be dependent on a significant fall in the household savings rate, presently standing at more than 8 per cent of earnings, which is regarded as being far from certain.

Mr Pagrotsky acknowledges that if the economy does not perform as well as anticipated, the budget calculations will be skewed. But he says exports, which have fuelled the return to growth this year, will continue to grow well in 1995 and will have a growing trickle-down effect into the domestic economy as home-based suppliers of exporters benefit. Corporate investment, long in recession, has finally begun to grow significantly. He also believes households are becoming less savings-minded as unemployment stabilises.

If the government does succeed in bringing the public finances under control, the economic debate is likely to shift to the deeper question of the underlying structure of the Swedish economy. Public sector spending has grown to account for some 70 per cent of GNP – easily the highest level among industrialised countries. This will fall as the deficit is reduced – but to get back closer to average European levels would require a further stage of reform of the public sector.

To achieve this, the previous government under Mr Carl Bildt, radical leader of the conservative Moderate party, advocated free market reforms to cut back state monopolies in the public services, widespread liberalisation in areas such as labour market regulation, lower taxation on capital and extensive privatisation.

The Social Democrats, creators of the welfare state, have a different agenda. They readily accept the need to engender greater private sector growth; they acknowledge that the public sector must be reduced as a proportion of the economy; they embrace the need for open markets and competition.

But they remain committed to a strong public welfare system and the maintainance of a society where variations in income are smoothed out by state-directed redistribution of wealth. Their critics say this ultimately prevents them from tackling issues such as labour and monopoly market deregulation which is needed to unleash long-term growth.

The government has so far put a break on deregulation of Sweden's energy market, reversed some Bildt labour reforms and is hesitating over the privatisation of Telia, the state telecommunications company. The former government parties may tacitly or even explicitly support the Social Democrats in their efforts to cut the budget deficit. But they will certainly keep up the pressure on the new government to go further in reforming the economy in the battle to restore Sweden's long-term prosperity.

INTERVIEW: INGVAR CARLSSON

Two notable triumphs

Ingvar Carlsson, 60, took over as prime minister and leader of the Social Democratic party in early 1986 after the assassination of his predecessor, Mr Olof Palme.

In 1991, as Sweden spun towards a deep recession, he lost power to Mr Carl Bildt, leader of the conservative Moderate party, who declared that the long dominance of the Social Democrats and the universal welfare state they had built was over.

But Mr Carlsson led his party back to power in September's general election, pledged to defend the welfare model. Less than two months later, Mr Carlsson chalked up a second notable triumph when he won the battle to persuade Swedes to accept membership of the European Union in a national referendum.

With these victories behind him, Mr Carlsson can now turn to the urgent task of tackling Sweden's mounting state debt – soon to exceed 90 per cent of gross national product – and bringing down unemployment presently running at 13 per cent of the workforce.

Hugh Carnegy asked Mr Carlsson to outline his government's primary objectives:

Mr Carlsson: Very clearly to stabilise the total debt, get over the economic crisis and stimulate economic growth and get down unemployment.

Doesn't this amount to a rather defensive agenda?

I don't think so. Unemployment in Europe is too high and to say that we want to attack that unemployment and do it now together with other member countries in the Union – that is not defensive. It is very important long term for a progressive society to solve these problems.

The financial markets are sceptical that you can balance your commitment to defend the welfare system with the need to cut the budget deficit. How can that be done?

Let us now see what we are doing. First, the former government reduced the budget deficit by SKr18bn. In addition to that we have now a proposal in parliament reducing the deficit by another SKr57bn and we have proposed to parliament the financing of the fee for EU membership of SKr18bn. And we have said in January there will be around SKr20bn, mainly in cuts. Honestly I don't think that the market is aware yet of what we are doing. But they will see the facts. This means we will stabilise the total Swedish debt before 1998 – which was what we said in the election campaign. I think it is possible already in 1997. And when the market sees the total effect of these proposals that will definitely mean a stronger currency for Sweden and also a lower rate of interest.

The Social Democrats are in a minority in parliament. How stable is the government?

We have 46 per cent of the mandates and there are six parties in parliament – all the way from the conservatives over to the Left and the Environment parties. When we look at our proposals we usually find at least one, and very often several, of the parties supporting us. We are as secure as a formal minority government could be. I think we have very good chances (to survive the four-year mandate period).

What role will Sweden play in the EU?

We will be very ambitious. We will be active. We will take responsibility. We will accept decisions taken and follow them, but we will also come with concrete proposals, particularly to fight unemployment in Europe and to fight environmental problems. We will be active supporting the three Baltic states becoming members. And of course, now Norway is not coming in we will try to see to it that Norway still will be in close and good co-operation with the EU.

What action will you propose that the EU should take on unemployment?

I think what is in the EU Commission's Employment White Paper on investment is a good start – investments in infrastructure, roads, railroads; plus better labour market policies.

I think Sweden has something to contribute here with our experience on active labour market policies. Instead of paying cash to people, put it into active measures. We should have much more on education. Not just for youth and universities, but recurrent education, bringing people back from the factories into education, giving them a better chance in languages, electronics, information technology and all that.

Sweden is a neutral country. After the end of the cold war, some Swedes argue that neutrality is dead – that joining the EU means Sweden will inevitably shift towards joining a western European security alliance.

Prime minister Ingvar Carlsson

No. I don't agree with that. The parliament has said – and all parties agree with that – that we are militarily non-aligned, able to be neutral in case of war in our neighbourhood. And that's a reality. It's a parliamentary decision and the government is sticking to that.

We are not leaving our present position without knowing where to go. The Western European Union as it looks today, with the resources it has today, is no alternative. I think it is not in the interests of Nato, it is not in the interests of Sweden to change the basic security policy in northern Europe. We have had a very stable situation in northern Europe for many years with the kind of security policy we have had so far and I think it could be a dangerous policy to give Russia the feeling that we are encircling them.

Of course, we also have to say that with the Berlin Wall torn down in 1989 we have a completely new security position in Sweden. The old, very difficult policy for us between east and west – that's gone.

We are in former Yugoslavia with more than 2,000 soldiers; we are actively taking part. So it is a different situation. But when you come to the core – are we prepared to give up the military non-alignment – the answer is no.

What is Sweden's attitude towards building European Monetary Union?

I am personally in favour of stronger co-operation in monetary policy but the formal position of Sweden, both the present government and the former government, is that before saying yes to that co-operation we must know what it really will mean in reality and we don't know that yet. That is also what Germany has said: but I see personally that there are good arguments for increased co-operation. But I don't want to take specific positions. There are problems with (creating a common currency). I think we have to increase co-operation but the ways and means to do it have to be discussed further.

Sweden and the European Union

Political passions stirred

Stockholm, November 13: European Union supporters celebrate after Sweden voted to join the EU *Picture: Reuter*

Rarely have political passions been so stirred in Sweden than in the debate that preceded the referendum vote on Sunday November 13 to join the European *Union*. Rarely *has* the country been so deeply split, geographically, demographically and politically on a national issue.

The depth of feeling on the losing side after the 52.2 – 46.9 per cent result in favour of membership – 0.9 per cent of voters cast blank ballots – was graphically illustrated the following day in a radio confrontation between Mr Carl Bildt, the pro-EU former prime minister, and Mr Per Gahrton, Environment Party member of parliament and one of the leading figures in the No campaign.

Mr Gahrton, asked if it was now time quietly to accept defeat, exploded into a tirade against what he called "the insults and idiotic arguments" the Yes side "spewed over us". *Turning on Mr Bildt, he* declared: "I represent more kommunes (municipal districts) in this country than you. I represent more workers than you. I represent many more of the people who will be losers out of this."

At least on two points, Mr Gahrton was right. The map of Sweden the morning after the EU vote showed that the vast majority – geographically – of the country *had* voted No, with the Yes vote being carried thanks only to heavy Yes results in the areas around the three main cities: Stockholm, Gothenburg and Malmö. Out of 263 *kommunes nationwide*, only 83 voted Yes.

On the No side, the main stalwart groups were trade unionists, young people and women. Most worryingly for the newly-formed Social Democratic government, almost half of all Social Democratic supporters voted No.

The core of the No argument was the perception that membership would undermine Sweden's independence, compromise its military neutrality, threaten its cherished welfare system and entrench high unemployment because of the EU's preference for free-market economics. The Yes campaign, meanwhile, spearheaded by the political elite and business *leaders, argued that Sweden* must be a full participant in the EU's evolving political and economic structures to cement its own strategic and economic future. The key question now is whether the deep divisions which the debate exposed will persist or whether, over time, a general acceptance of the nation's participation in the EU will grow.

Some No campaigners are demanding another referendum if the EU goes further

Some signs already suggest the latter. A poll late last month showed most No voters were reconciled to the Yes result – notwithstanding the reaction of senior No campaigners such as Mr Gahrton.

In the most northern county of Norrbotten, where some districts voted 80 per cent against membership, Mr Sven Persson, a senior official in the county council, commented: "Many people up here already regard Stockholm rule as almost colonial rule. *Now they see power* moving even further away to Brussels. I think the day when we start to realise the benefits of EU regional funds for us, people will change their ideas – but it will take some years."

Still, there exists at least a risk that the strength of anti-EU feeling at large in Sweden will make the country forever an inherently Euro-sceptical EU member. Some No campaigners are already demanding another referendum if the EU goes further in its move towards common security policies and full monetary union.

This is particularly true within the Social Democratic party, easily Sweden's biggest political movement. Walter Karpi, a professor of politics at Stockholm University, thinks the party faces a tough future over Europe. "Once a party develops a serious split like this it is very difficult to overcome it," he says. "If the benefits promised by the Yes side – such as lower unemployment – are not forthcoming then there are likely to be long-term consequences *(within the party).*"

However the very threat of such a long-term cleavage undoubtedly increases the incentive for Mr Ingvar Carlsson, the prime minister, and his government to play an active role within the EU in the hope of gaining tangible results on the issues of most concern to them.

Swedish officials stress their wish – in league with their fellow Nordic countries Denmark and Finland – to further the campaign for greater openness in the EU's decision-making processes, to increase environmental standards, to advance equality between the sexes, to accelerate the integration of eastern and central European nations (including the three Baltic states), to cement free trade agreements and, above all, to combat unemployment.

The rejection of membership by Norway has weakened the potential "Nordic bloc" within the EU which would have been united in championing these issues – a matter of real regret in Stockholm. But Swedish ministers say they will actively seek to build alliances with other like-minded EU members to form influential fronts on these issues.

Mr Mats Hellström, minister for European affairs, says it is a big mistake to think that because the anti-EU camp was so strong in Sweden that *Stockholm* will not be a full-hearted member. "That view misunderstands Sweden," he says. "When we enter an international organisation, it is always our intention to see that the organisation is strengthened, not watered down."

But he stresses there is no pre-ordained Swedish position on how the EU's structures should be shaped. The government, approaching the 1996 Intergovernmental Conference that will review the Maastricht Treaty, is being cautious. It is sticking by Swedish neutrality, reluctant to be drawn into taking a stance on a common EU security and defence policy *whose shape is as yet far from* clear. Likewise, Stockholm favours extending co-operation on economic and monetary policy, but is holding back from endorsing a single currency.

"We will ask how the Union can be effective in creating common policies to further progress in areas such as environmental and employment policy – then we will ask to what extent the institutions affect these. Our approach will be from the substance of politics, not from an ivory tower discussion about institutions," says Mr Hellström.

Hugh Carnegy

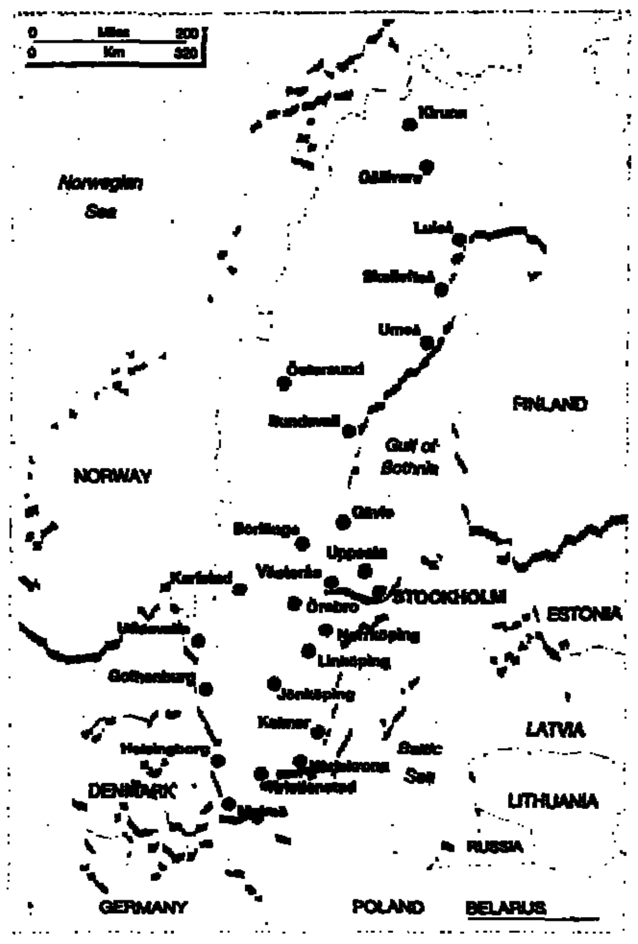
KEY FACTS

Area	449,964 sq km
Population	8.75 million
Head of State	King Carl Gustaf
Currency	Swedish Krona
Average exchange rate	1993 \$1=SKr 7.78
	Jan-June 1994 \$1=SKr 7.90

ECONOMY

	1993	1994
Total GDP (\$bn) [1]	186.2	191.4
Real GDP growth (%) [1]	-2.2	2.5
Components of GDP (%) [1]		
Private consumption	54.7	54.0
Total investment	13.7	14.2
Government consumption	27.7	27.0
Exports	32.7	35.7
Imports	-28.9	-30.8
Annual average % growth in		
Consumer prices (%) [2]	4.7	2.3
Ind. production (%) [3]	2.6	9.7
Earnings (%) [3]	3.2	3.9
FT-A Share price index (%) [4]	38.8	17.5
Unemployment rate (%) [2]	8.2	8.1
Discount rate (%) [5]	5.0	7.0
Govt. bond yield (%) [5]	7.0	11.0
Trade (SKr bn)		
Current account balance [6]	-2.5	2.4
Merchandise exports [7]	388.3	378.1
Merchandise imports [7]	333.3	317.9
Trade balance [7]	55.0	60.2
Main trading partners (%) [8]	Exports	Imports
Germany	14.4	17.8
UK	10.2	9.3
Norway	8.1	6.4
USA	8.4	8.8
Denmark	6.6	7.3
Finland	4.6	6.2
EU	53.2	54.8

Notes: [1]GDP, components and growth-first half 94 only.
[2]Inflation, Unemployment-average over year to October 1994.
[3]Earnings, Ind. prod.-average over year to August 1994.
[4]Share prices % growth over year to end Dec 93, Nov 94.
[5]Discount rate, Bond yield-at end Dec 93, Nov 94.
[6]Current account balance Jan-Sept 1994 only.
[7]Trade-Exports, imports, Jan-Oct. 1994 only.
[8]Percentage shares of trade in 1993.
Sources: IMF, EIU. National Institute of Economic Research.



Relations with Norway

Officials fear wedge

If you ask officials what course relations between Sweden and Norway will take in the wake of Sweden's "Yes" last month to membership of the European Union and Norway's rejection of membership, "status quo" is the united response, writes Karen Fossli.

Privately, however, they express fears that a wedge may have been driven between the two countries by the different outcomes of their referendums on EU membership.

Norwegian officials fear that at some point Sweden will be forced to ask itself "What's in it for me?" when deciding between Nordic co-operation and EU loyalty.

For Norway, a 90-year union with Sweden and before that a 434-year union with Denmark, were both forced marriages which partly explains Norwegians' icy response to *joining anything resembling a union.* Norwegians are quick to point out that during both unions the country lost its identity and the people lost their language.

Norway relinquished neutrality following the occupation by Nazi Germany during the second world war and became a founding member of the North Atlantic Treaty Organisation (Nato). Sweden, which was not occupied during the war, has maintained neutrality.

In joining the EU, Sweden will attain observer status at the Western European Union (WEU), but the country is loathe to subscribe to full membership. Norway has WEU observer status.

Norway says Sweden relies on its ties to Nato. "This has always been vital for Sweden and has contributed to allowing the country to maintain neutrality," one Norwegian official explained.

In 1952, the Nordic countries established the Nordic Council through which co-operation has since been undertaken. Resolutions unanimously passed in the Council are binding for the Nordic governments but in some cases must be approved by their individual national assemblies. Foreign policy and security policy fall outside Nordic co-operation, however.

Mr Carl Bildt, the former Swedish conservative Moderate prime minister, suggested last month that formal Nordic co-operation be dismantled in view of the broad Nordic expansion into the EU. But, Mr Ingvar Carlsson, Sweden's prime minister, has so far resisted such a move.

"There is a limit to what Sweden could do [to this end], if it was to do anything at all, because there would be a public outcry if Nordic co-operation was to end... and this gives Norway some protection," a Norwegian official said.

Last month, the Nordic Council agreed that co-operation should be reformed to take into account "a wider international outlook". Nevertheless, Norway fears that the Nordic Council might *become obsolete, or take a* back seat to the EU, now that all of the Nordic countries except itself and Iceland have become EU members.

Local Swedish authorities are attempting to persuade Norwegian companies to relocate

One of the most significant achievements of the Nordic Council is that of joint labour markets, set up 20 years ago, and the introduction of unrestricted passage between Nordic states. Swedes can work and live in Norway or other Nordic countries and vice-versa. Officials do not foresee interruptions in these agreements just because Norway is outside *the EU but both sides* see controls at the new EU Swedish-Norwegian border being tightened.

Swedish customs officials say they have received no sig*nals from Brussels that* things should change. The Norwegians, however, fear that an existing drain of trade to Sweden at the frontier will become exacerbated *by the new EU border.* Norwegians have for years been motoring to Sweden where food prices in particular are significantly lower and are set to decline as a result of EU membership.

Local Swedish authorities are already attempting to persuade Norwegian companies to relocate "just over the border into the EU" and advertising campaigns spelling out the benefits are in full swing. Some local authorities are offering incentives such as free building plots and cash advances towards hiring staff.

Norwegian officials plan to increase the number of customs officials posted at the frontier. Before it decided to become an EU member, Sweden planned to cut border staff but it may now have to increase staffing.

Norway is deeply concerned about domestic companies relocating to Sweden. Already, some Norwegian fish processing companies have moved to Sweden, and others warn they will *follow* in order to benefit economically from not having to pay tariffs on processed fish exported between EU countries.

Processed fish exported by Norway to the EU is subject to a complex system of tariffs. But another benefit for companies relocating to Sweden is that they can qualify for support from the EU's regional fund. Norway is therefore considering establishing a "free enterprise zone" in specific counties at the EU frontiers of Sweden and Finland but has yet to give details.

Officials in Sweden and Norway are disappointed with Norway's "No" vote. Sweden and Finland counted had on Norway joining the EU because it would have meant that one in four of the countries around EU tables would have been Nordic. The Nordic bloc could have wielded considerable influ*ence over EU decision-making.*

The Swedes and Norwegians say the European Economic Area trade pact, established in 1992 between the European Free Trade Association (Efta) – of which they are members – and the EU, will protect Norway to a certain extent once Sweden becomes a full EU member from January 1. *But Norwegians* concede that foreigners considering investment in the Nordic region will favour Sweden because of its EU member status.

The irony of Norway's rejection of membership is that the country will become more dependent on Sweden to air Norwegian views in Brussels, a dependency which it has fought hard to shed since dismantling the union with Sweden 90 years ago.

SWEDEN IV


Lake Malaren: Sweden's alluring scenery is one of its attractions   Picture: Peter Baker

TOURISM

Growing rapidly

Tourism is one of Sweden's fastest-growing sectors and, although the trade is relatively young, ranks as the country's third-largest industry, generating annual turnover of an estimated SKr96bn of which SKr21bn is derived from foreign tourists.

The attraction of Sweden has to be, among many things, the country's unspoilt environment and alluring scenery comprising 60,000 islands, 90,000 lakes, a 4,725-mile coastline and endless forests. There are also 350 museums in the country and a wide variety of special events throughout the year.

The tourist industry peaked in 1989 when turnover hit SKr100bn, but nose-dived by nearly SKr80bn during 1990-91 when the then Social Democratic government led by Mr Ingvar Carlsson, increased value added tax on tourism to 25 per cent in two stages.

The VAT increase coincided with the onset of the deepest recession to hit Sweden since the second world war. But the industry recovered during 1991-93 after a new conservative Moderate government, led by Mr Carl Bildt, reorganised the marketing of tourism and cut VAT to 12 per cent.

These factors were aided by the start of a recovery in the economy which began at the end of 1993.

Nevertheless, even after the rate cut, Sweden's VAT remains significantly higher than the European average. The Swedes argue vigorously that prices in their country have become competitive with the rest of Europe while a main priority of marketing seeks to dispel "the myth" that Sweden is far too expensive to be considered a holiday destination by more than just the elite.

"Surveys show that many foreigners still believe that Sweden is too expensive. Heavy resources are therefore being invested in marketing Sweden abroad," the Swedish Trade Council said in its 1994 annual report on the country.

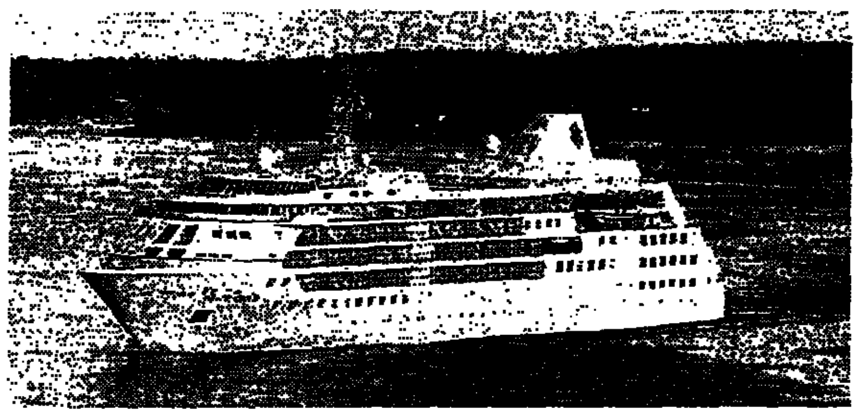
In the first nine months of this year, the number of overnight stays in Swedish hotels by foreigners rose 13 per cent compared with the year-earlier period, and industry executives are predicting that 1994 will be a record year in terms of growth. Last year, foreigners' overnight stays alone reached 6.1m.

During the first nine months of 1994, Dutch and Danish tourists accounted for the highest growth rate in overnight stays in percentage terms, rising respectively 25 per cent and 26 per cent while US visitors rose by 14 per cent.

German tourists, the largest group of foreign visitors to Sweden, increased their overnight stays by 13 per cent and UK tourists 11 per cent.

Another indication of the strength of this year's activity is a forecast rise in the number of cruise ship passengers calling on Stockholm alone. It is estimated that international cruise ships will make 125 visits to the capital city this year, carrying a total of 70,000 passengers, representing an increase of 10,000 passengers over 1993.

Mr Per-Johann Orrby, president of Next Stop Sweden (NSS), the Swedish Travel and Tourist Council, attributes the rise in tourism's fortunes partly to Sweden's attractive prices – in foreign currency terms – since the krona was devalued by nearly 30 per cent in 1992. The reduction of VAT and a slight recovery of the economy are also considered significant.


Passenger ferry Silver Cloud near Stockholm. Sweden has a 4,725-mile coastline   Picture: Tony Andrews

NSS reckons that sterling buys 15 per cent more in Sweden since the devaluation, while the purchasing power of the US dollar has risen 18 per cent and the German mark 30 per cent.

But the Swedes probably also have their next-door Nordic neighbours to thank for foreign interest, following Norway's success in arranging the Winter Olympics earlier this year.

For more than two weeks in February, hours and hours of pristine, sunlit "Scandinavian" winter images were broadcast worldwide from Lillehammer in Norway. Such coverage undoubtedly had a spill-over affect for Sweden and must have improved the country's standing as a tourist destination.

The Olympics boosted Norway's tourist industry by as much as 5 per cent this year but it would be difficult to quantify the effect it had on Swedish tourism.

According to Mr Jan Brännström, managing director of Image Sweden, the state-backed agency which promotes Sweden internationally, recent studies revealed that about half the foreign tourists visiting Sweden do so as part of a Scandinavian tour. But, he said, there were no plans for a joint Scandinavian tourism marketing effort and, in the long-run, he saw few, if any, benefits from such a scheme.

Another important factor which has undoubtedly lifted the awareness of Sweden abroad is the apparent success of the big overhaul of the organisational structure of marketing services for tourism. The Swedish Tourist Board was dismantled and Image Sweden established together with NSS. Image Sweden purchases marketing services from NSS for an estimated NKr60m annually.

Karen Fossli

Christopher Brown-Humes examines energy policy

Nuclear deadline looms

Sweden is a country with one of the safest nuclear power industries in the world – and yet it has committed itself to phasing out nuclear power entirely by the year 2010. Perhaps only in a country of such dogged environmental idealism could so dramatic a move be contemplated when nuclear power accounts for close to 50 per cent of electricity production.

Nuclear power has been a hot potato in Sweden for 20 years. The issue has nagged away with varying degrees of intensity in the political debate, even helping to decide the outcome of one general election.

It has gained added urgency every time there is a nuclear spillage beyond Sweden's borders, such as the 1979 Three Mile Island disaster in the US and the Chernobyl disaster in the Ukraine in 1986. Now, as the 2010 deadline looms, a new urgency has developed and a new political crisis may be in the offing. If the final deadline is to be met, a date for the phase-out of the first of the 12 reactors has to be fixed soon.

In many countries, the practicalities of the matter would decide the issue. Most of Sweden's nuclear power plants are nowhere near the end of their technical lives. Replacing them would be extremely costly, there are no easy alternatives, and there is an obvious risk of higher electricity prices.

But in Sweden there is a strong political will to phase out the controversial energy source completely. The Centre, Christian Democrat, Left and Environment parties have all tied themselves to the anti-nuclear mast. More importantly, the Social Democratic prime minister, Mr Ingvar Carlsson, is personally committed to the phase-out, saying 2010 is "a realistic commitment." His party, however, is split on the question.

The 2010 date was set by parliament in 1980 after a national referendum in which Swedes voted to dismantle their nuclear industry. The date chosen was 25 years after the last of Sweden's reactors was commissioned in 1985. Why 25 years? Because that was assumed to be a nuclear plant's technical life-span just because it is the standard depreciation period for Swedish nuclear assets.

> Power industry experts are convinced that the 2010 deadline will be dropped

The issue again came to the fore in the late 1980s when parliament decided to dismantle the first two plants in 1995 and 1996. However this commitment was side-stepped as part of a three-way accord between the Social Democrats, the Centre Party and the Liberals in early 1991. The 2010 target, however, remained in place.

The importance of nuclear power to Sweden is not contested. Last year it generated 58.9 terawatts of power, or 41.8 per cent of the country's electricity needs. Hydro-electric power produced 73.3 TWh, or 52 per cent.

Ironically, the improving efficiency of Swedish nuclear plants and the expected re-commissioning of a plant that has been out of service means the nuclear contribution is predicted to rise over the next two years. Next year, nuclear electricity output could reach 69.0 TWh, 48 per cent of the total.

This is a huge hole for other power sources to fill. The difficulty has been exacerbated because "renewable" energy sources such as wind, solar energy and biomass have not become as commercially viable as was expected at the time of the 1980 referendum.

In fact, Sweden is being forced to try and reconcile a number of mutually incompatible objectives. It wants to be rid of nuclear power, but it is not prepared to dam more rivers in the north of the country to increase hydro-power generation. It cannot insist on renewables, but it knows that falling back on coal and gas would increase carbon dioxide emissions. Finally, it wants to maintain internationally competitive energy prices and protect jobs.

In other words, there are no easy answers. Heavy investments in coal and gas-fired power plants look to be the only realistic alternatives, but that could cost the country a staggering SKr200bn, according to some estimates.

The problems might eventually be eased by a broad deregulation of the Swedish, Nordic and even north European power markets. But the Social Democrats have just postponed deregulation of the Swedish market, which was due to take effect on January 1 1995, and the deregulation of the north European market still looks to be some way off.

For the moment, the issue is again on hold. A commission has been established to map out a realistic Swedish energy policy, covering everything from nuclear power to deregulation. Its task will be to detail the costs and environmental implications of the different solutions before the end of next year.

Power industry experts are convinced that the 2010 date will be dropped. "I have never thought the politicians would go ahead with the phase-out," says Dr Karl-Axel Edin, president of Tentum, a Stockholm energy consultancy. "The safety of nuclear power has increased more than tenfold since the referendum and energy sources like wind-power and biomass are not going to fill the gap."

The assessment may well be correct – but that does not mean there will not be another political crisis over the issue or that one or two nuclear plants will not be sacrificed along the way.

Mr Sigfrid Leijonhufvud, author of *A History of Swedish Nuclear Power*, believes there could be another referendum on the issue. Alternatively, he suggests the deadline could be postponed as a gesture to some future political partner, such as the Liberals, if the minority Social Democratic government was ever forced into a coalition. But Mr Leijonhufvud notes that Mr Carlsson is "morally bound" over the 2010 deadline and believes it could even prove to be the issue on which the 60-year-old party veteran eventually decides to step down.

Karen Fossli reports on the Greens

Exploiting their leverage

After failing to break through the required 4 per cent threshold to enter the Riksdag (parliament) during the last three-year session, Sweden's fledgling Environment Party (Miljöpartiet) – popularly known as the Greens – captured 5 per cent of the vote in the September elections and see the party's future going from strength to strength.

The Greens find themselves back in parliament for the second time since they were formed in 1981 as the country's first new political party in 70 years. Their roots are in the so-called "alternative movement" which emerged in the 1970s to champion the causes of not only the environment, but also peace and womens' equality while opposing nuclear weapons and energy.

They first entered the Riksdag in 1988 for a three-year parliamentary term, backed by a vote of 5.5 per cent. But, in 1985, the Greens scored at local level, winning 237 seats on 148 local councils which they tripled three years later to 698 seats on 260 out of 284 councils. They also forged ahead at regional level in 1988, when they won 101 seats and representation on all 25 county councils.

There were teething problems in the early days as the Greens seemed more a curiosity than anything else. But important political events such as the Rio Conference on the environment in Brazil in 1991 has boosted the credibility of Green parties worldwide with their main cause having been elevated to the international agenda.

In Sweden, the Greens' platform has changed little over the past 10 years, although it is now presented in a less idealistic and less fundamentalist tone. Among other things, they favour energy taxes – so-called environmental taxes or Green taxes – as a means to make pollution expensive, promote recycling and reduce traffic. They support a 35-hour work week so that more people can be put to work – Sweden's present 13.8 per cent unemployment rate is unprecedented since the second world war. They continue to push for rapid closure of Sweden's nuclear power plants and adamantly oppose plans for a hazardous waste disposal facility.

"Our return to the Riksdag did not represent the protest vote which some claim... it meant that when we were out of parliament the last time, people genuinely missed the fact that environmental issues had disappeared from the debate," said Ms Marianne Samuelsson, 49, a mother of three, joint leader of the Greens and an MP.

"When we were in [the Riksdag] before, the other parties saw benefits to gain votes by elevating environmental issues to their agenda. This was superficial. What happened on the environment front during 1991-94 when we were out? Very little, if anything – and this did not go unnoticed by the electorate, particularly by women and youth," she said.

It was primarily women and the youth vote which propelled the Greens back into the Riksdag this year. Ms Samuelsson concedes that the Greens lost out in 1991 because of inefficiency and disarray: "We simply did not have our act together." But Greens throughout Europe hit a five-year low after 1988 which coincided with a right-wing wave of politics and from which they managed only this year to recover, according to political analysts.

> During the period when it was out of power, the party reorganised and did some soul-searching

Sweden's Greens ran on an anti-European Union ticket for the September elections and this undoubtedly shored up their support ahead of Sweden's November referendum on EU membership which was opposed by almost half the electorate.

During the period when it was out of power, the party reorganised and did some deep soul-searching to regain its confidence which was battered by the 1991 defeat.

"The leadership in Sweden of the Green party has become more seasoned, more experienced and less fundamentalist than their earlier years. They have shown that they are a party with whom political deals can be struck," said Professor Sōran Holmberg, at Gothenberg University where he is department head of political science and head of a special election studies team.

The Greens' joint male-female party leadership is meant to demonstrate that party commitments also include gender equality. Ms Samuelsson became co-leader of the party in 1992 together with Mr Birger Schlaug. The Greens have the highest proportional female representation in the Riksdag of any national party. The party holds 18 seats and is represented on 16 parliamentary committees.

The Greens are also members of the 20-country European Green Party Federation, and have endorsed its programme which rejects the Maastricht Treaty and the Western European Union. With Sweden's slim Yes vote on EU membership, the Green party intends, through the federation, to make its voice heard in Brussels, because the party has little faith that Ms Anita Gradin, Sweden's EU Commissioner, will make environmental issues a priority.

"I'm disappointed that Sweden did not get a person in Brussels who is engaged in environmental issues – Anita Gradin simply is not," said Ms Samuelsson.

"The situation in Europe is developing one way – the wrong way. There is more traffic and more chemicals... the list goes on... and this cannot continue if we have any conscience at all about leaving the earth in reasonable shape for coming generations," she said.

The Greens advocate a referendum throughout the Nordic countries in either 1996 or 1997 on the EU's next phase of economic and monetary union.

"Basically, we oppose the EU's common economic and monetary policy – not all countries are equal – and as for the WEU, this is not a peace organisation. After the US, the EU is the world's second-biggest producer of weapons. This means weapons will remain high on the EU's agenda because Europe's economies depend on their production for revenue.

"Sweden has WEU observer status which means it will have access to all WEU information, undermining the government's claim of being 'alliance-free'. This also raises questions over the government's stand on a future common EU military force, although the prime minister has suggested a referendum may be needed," Ms Samuelsson said.

Professor Holmberg believes that the Greens' anti-EU stance will benefit the party in the long run. "They were helped by the 'EU dimension' and the ongoing [EU] debate in Sweden will help their future as they try to slow Sweden's integration into Europe. Their main political competition is the Left party who they will always have to look over their shoulder to monitor... both of these parties have the most volatile voters in Sweden," he said.

The Greens believe their return to the Riksdag will strengthen the party's ties to the ruling minority Social Democratic party.

"They depend on the Left [party] for support for all the budget cuts and other proposals to reduce the deficit. They won't get support from the Left on many of their plans... which means they will have to rely on us," Ms Samuelsson said – a reminder that Sweden's political situation gives the Greens a degree of leverage in the Riksdag which they aim to exploit.

Christopher Brown-Humes reports on the forestry industry

EU vote was critical

No other Swedish industry had more at stake in the country's European Union referendum than the forestry sector. Even people not directly involved in the industry – the country's biggest net export earner – agreed that Sweden's pulp and paper companies had much to lose if the country had stayed outside.

"For the forestry industry a 'No' would have a catastrophe," says Mr Arne Martensson, chief executive of Svenska Handelsbanken.

The EU is the Swedish forest industry's biggest market by far. About 30 per cent of its existing capacity is located outside Sweden within EU borders. But the EU is also an important market for many of the country's other multinationals, so it is not simply a question of access.

What distinguishes the forestry sector is the continuing environmental debate, covering everything from recycling and waste management to clear-cutting (the practice of completely clearing whole swathes of forest land at one go) and eco-labelling. The Swedes felt they simply had to have a direct say in shaping policy in issues of such commercial importance to their companies.

The nightmare scenario for Sweden's pulp and paper sector would be an EU forestry policy that coupled maximum stress on recycling with maximum emphasis on the preservation of existing forest areas.

At its most extreme, that could mean Sweden having to import recycled fibre from the continent to meet EU rules on paper content. Or it could mean Swedish companies being banned from clear-cutting. Rules such as these, were they ever to be enforced, could raise costs in a country with enough natural handicaps already in the form of slow tree growth and long distances to markets. It could also hinder the access of Swedish companies to their main markets.

Swedish forestry executives say they have nothing against recycling, but they want a balanced view of its relationship with virgin fibre.

"Virgin fibre and recycled waste paper are two important components in the same system," says Dr Jan Remröd, director-general of the Swedish pulp and paper association. He also advocates a broader view of waste management, giving greater emphasis to energy recovery than has been the case until now. "There are limits to the amount of times paper can be recycled and sometimes the distances involved do not make it worthwhile. It would be a better idea to take out the energy instead, producing heat and electricity which saves coal and oil," he says.

Pleased as they are by the outcome of the EU vote, it is already clear that membership will carry a cost for the forestry groups. Mr Göran Persson, Sweden's finance minister, has announced a series of new corporate, energy and environment taxes to help fund the estimated SKr20bn annual cost of Swedish EU membership.

Stora, Europe's biggest pulp and paper group, believes the measures will add as much as SKr230m to its annual costs, including the impact of higher social security charges.

But there is surprisingly little grumbling. That has probably got a lot to do with the fact that Sweden's pulp and paper groups have enjoyed a much better 1994 than they expected now that a strong cyclical recovery in the sector is under way. Profits have grown as rising prices and strong demand have driven up capacity utilisation and sales. The weak krona, cost-cutting and lower debt burdens have also contributed to the upturn.

Prices are increasing for virtually all grades of paper and paperboard – although the impact has yet to be fully felt in companies' profit-and-loss accounts. Long fibre pulp prices have doubled in little more than a year and are set to reach $750 per tonne by January 1. Prices for fine paper, which has a high pulp content, have also climbed sharply, as have prices for sawn timber. In other segments, such as publication papers, the impact has been modest although big price rises are on the way.

A picture of an industry making a rapid return to health, after three difficult years between 1991 and 1993, emerged at the nine-month stage. Stora announced a profit of SKr2.04bn, seven times higher than the SKr294m profit achieved in the same 1993 period. MoDo swung to a profit of SKr1.01bn from a SKr427m loss while SCA lifted profits to SKr1.59bn from SKr788m. The industry expects even better figures next year because of higher prices. With balance sheets also in much better shape, companies are starting to expand again, either by acquisition or by building new capacity. MoDo has announced SKr3bn of new investments, including a SKr2.1bn outlay on a new newsprint machine at its Braviken plant in Sweden. Stora is considering a SKr2.8bn investment in a new board machine. AssiDomän has agreed to buy MoDo Packaging in a deal worth SKr1.2bn.

Industry estimates suggest Swedish companies will invest as much as SKr8bn in 1995, about the same amount as they invested annually in the late 1980s at the last cyclical peak. This makes investors nervous because the downturn that struck the industry in 1991 was caused more by overcapacity than weak demand.

During the late 1980s and early 1990s, Swedish forestry groups invested heavily in the UK, Germany and France because they wanted to establish themselves close to their main markets. In the present expansion phase, there are signs that a greater proportion of investments will be concentrated at home.

This trend undoubtedly reflects the productivity gains achieved in the Swedish forest industry over the past few years. Dr Remröd says the new competitiveness and the need to exploit virgin fibre resources make it natural for the expansion to be in Sweden. "There is a need for more fresh fibre in the system and the waste paper trend is balancing out," he says.

Holmen plant, part of the MoDo group, at Norrkoping Picture Tony Andrews

BANKING

Too much money: not enough borrowers

Two years ago Swedish banks had too little money and too many loans going sour. Today they have too much money and too few people wanting to borrow it.

It is a striking recovery, if a rather lop-sided one. Healthy profits are being made again but only because there has been a sharp drop in the volume of the credit losses which crippled the sector two years ago. Underlying results have actually deteriorated because of low credit demand, narrower margins and reduced profits from bond trading.

The pattern is clear from the results of two of Sweden's leading private-sector banks, Skandinaviska Enskilda Banken and Svenska Handelsbanken. SE Banken made a nine-month profit of SKr2.87bn, a huge improvement on SKr71m a year earlier, after credit losses shrank 44 per cent to SKr4.35bn. But the result before loan losses, after stripping out hefty capital gains, was down 17 per cent on 1993.

Handelsbanken achieved a SKr3.18bn profit – a 148 per cent improvement on last year. This was because a 59 per cent drop in credit losses to SKr2.14bn offset a 19 per cent fall in underlying results.

The drop in loan losses has been fuelled by Sweden's economic recovery and low short-term interest rates. As for the underlying performance, Sweden's banks are partly the victim of their own caution and partly of the general state of the Swedish economy.

Having been brought to their knees two years ago by reckless lending to an overheated property sector, they are now controlling their risk exposures more carefully.

At the same time, customers have shied away from taking out new loans because of weak private consumption, very high long-term real interest rates and reduced tax incentives.

The problem is that the banks have never been in a better position to lend money. They have strong capital ratios after the recapitalisation programmes carried out last year and, due to high personal savings levels, deposits are accumulating all the time. This means that after being undercapitalised two years ago, they are now close to being overcapitalised. But if they are not to turn away deposits, they have to do something with their surplus liquidity. This has forced them to compete aggressively to lift market share – hence the narrower margins – and expand their investment portfolios at a time when the securities market has been turbulent.

This strategy has had painful consequences, particularly because of this year's bond market turmoil. Bond trading profits are down sharply from last year's levels, and investment portfolios have been hit by the difference between market and purchase prices. The investment performance does not feed through directly into the profit-and-loss account – as it does in Denmark – but it does affect equity and capital cover.

Results are expected to improve further next year. Credit losses should continue to fall, even though short-term interest rates are on the rise again. Loan demand should also increase, particularly because of higher investments by the country's big exporters. However, state tax increases and spending cuts to curb the country's budget deficit will again hit private consumption, curbing loan demand from the household sector.

Banks are not just looking to more robust loan demand to boost their business. Services are being widened to include life insurance and more sophisticated banking products. SE Banken, for example, has bought the Diners Nordic credit card operation and set up an independent 24-hours-a-day telephone banking service. Handelsbanken has become the first Swedish bank to develop a flexible occupational pension scheme.

But competition is increasing. One of Sweden's leading insurers, Skandia, has set up its own banking unit and the Post Office is offering a broader range of banking services.

Competition within the Nordic region is also intensifying. Both SE Banken and Handelsbanken are building up their operations in Finland and Norway. Other Nordic banks are also planning to set up branches in Sweden. The increasing cross-border competition was the main reason that four of the region's top banks broke up a 10-year co-operation venture, Scandinavian Banking Partners, during the summer.

The government has still not made any move to remove the blanket guarantee which it put on the entire banking system in late 1992 at the height of the banking crisis. There are several reasons for this.

● One is that credit losses, though falling, are still not back to pre-crisis levels. Handelsbanken's loan losses are still running at 1 per cent of total lending, four times the level in the late 1980s. In addition, Föreningsbanken, one of the main banks, is still not back in the black.

● Secondly, Swedish long-term interest rates are high, and they are likely to remain so until the markets are convinced that the government has got the state debt under control.

● Thirdly, the backing is supporting the *banks' credit ratings*.

● Finally, the support has helped to sort out the banking crisis debris. For example, when Securum, the state-owned entity set up to liquidate the failed loans of Nordbanken, arranged a SKr20bn refinancing in the autumn, its task was made easier by implicit backing from the Swedish state.

The banking crisis cost the Swedish state about SKr65bn in cash support. Some of this will be recovered by the gradual dismantling of Securum, its sister Retriva (the "bad bank" for Gota Bank), and the return of Nordbanken to the private sector.

Nordbanken, which collapsed into state arms in 1992 as the biggest casualty of the crisis and has since been merged with Gota Bank, is due to be re-privatised some time next year.

Securum's progress over the past year shows that the legacy of the crisis is likely to be much shorter than was at first expected. The unit, which has converted virtually all of its sour loans into assets, seems likely to complete its liquidation programme within 10 years, having already sold SKr9bn out of SKr51bn worth of assets. It would like to have returned at least SKr10bn to the Swedish taxpayer by the end of the process.

Christopher Brown-Humes

Travellers' guide

Stockholm, built on a string of islands and promontories where the Baltic Sea meets the Mälaren lake, is a beautiful city by any standard. Its wealth of handsome architecture and grand waterfronts make it one of northern Europe's most attractive centres.

The relative compactness of the heart of Stockholm means that even a busy business visitor can savour much of what it has to offer. But to most outsiders it is still an expensive place with quirks that can catch out an unwary traveller.

How to get about: Beware the Middle Eastern-style bazaar for taxis at Stockholm's main Arlanda airport. Most taxi companies offer a reduced rate for the 40km ride to central Stockholm – of not more than SKr300 – but you have to fix the fare in advance. If the driver runs the meter, you will pay up to SKr600.

For those not pressed for time, the regular bus service to Centralen, the central rail station, costs SKr50. If you stay in town, many appointments will be within walking distance of your hotel. If you are anxious to cut taxi costs, the Tunnelbana underground system is simple to use, efficient and cheap.

Where to stay: If you want to stay on the waterfront, the prime hotels are the Grand, the Strand and the Diplomat. All are within a short and pleasant walk of the main government offices and business area of the city. Two other big city centre hotels, the Sheraton and Royal Viking, can claim a waterfront view, but in reality are hemmed in by busy thoroughfares. For something cheaper and with more character try the Lady Hamilton or the Lord Nelson on Gamla Stan, the old town.

Where to eat: If you are a fan of salmon and herring, Sweden is the place for you. Otherwise, standard fare tends to be dull. A good value option for lunch offered in dozens of restaurants is *Dagens Rätt* – a set menu, usually including a light beer, for SKr45-SKr50. Lunch-hour in Sweden is noon-1pm.

Stockholm also boasts a range of quality, up-market restaurants. The Smörgasbord at the Grand Hotel is justly famous for its sumptuous spread. The Operakällaren at the Opera is good, but at lunchtime the Opera Bar is cheaper and more fun.

Two good restaurants in beautiful settings are the Ulla Winblad on Djurgarden and the pricey Ulriksdals Wärdshus on Edsviken. Be warned, however, that beer, wine and spirits prices in all restaurants are very high.

Where to go: In summer take a boat trip to the islands. Look for the ferry company information and ticket offices in front of the Grand Hotel (for the archipelago) and the City Hall (for the Mälaren). Vaxholm in the archipelago is a good destination for a day, or half-day trip.

Take a lake steamer to the royal palace at Drottningholm for a summer treat and go to the opera at the 18th century Drottningholms Slottsteater – but tickets for the opera are hard to get at short notice.

There are several good museums in Stockholm. In the city, Gamla Stan, the old town perched on an island, is a charming jumble of narrow streets and old houses where a little exploration will turn up interesting antique shops.

Other tips: Always check museum opening times in advance; Swedish tourist attractions have an irritating habit of being closed in the summer because all the locals are on holiday, and restricted in the winter because it is not holiday time.

In early August, Stockholm hosts its annual water festival – which is great fun, but also highly disruptive to normal business in the city centre.

In July, the city is all but dead as Swedes go on holiday *en masse*. Do not plan a business trip then.

In winter, there is no decent downhill skiing in the Stockholm area – but if you are a skater, visit in January and February. You could be in for the treat of your life – skating on the lakes and the sea.

Finally, there is still a state monopoly on the retail sale of alcohol. If you want to buy it, look for branches of the Systembolaget. They are only open to 6pm on weekdays and are shut at weekends; most do not take credit cards.

Hugh Carnegy

Profile: Saab-Scania

Profits have surged

Saab-Scania, the Swedish vehicle and aerospace group, is at last starting to produce the sort of returns that its owners, the Wallenbergs, must have hoped for when they bought the group in 1991, reports **Christopher Brown-Humes.**

Profits have surged this year, after two dismal years in 1992 and 1993, driving the broader recovery of Investor, the key Wallenberg holding company which wholly owns the group. In the first nine months, Saab-Scania achieved an operating income of SKr2.3bn, a spectacular increase from only SKr108m in the same 1993 period.

Spectacular, perhaps, but a performance nevertheless which mixes "wine with water," according to Mr Lars Kylberg, Saab-Scania chief executive.

The "wine" is Scania, the world's fifth-largest truck group, which has benefited from a strong revival in demand and soaring sales.

The "water" is the group's commercial airline business which has suffered heavy losses amid plunging sales and orders.

The commercial aircraft division is, undoubtedly, the group's immediate headache because this year it is only likely to sell 15 of its turbo-prop aircraft, against the 50 which it needs to sell to break even.

The group produces two airliners, the Saab 340, which can seat 20-39 passengers, and the Saab 2000, a newer model seating 40-59 passengers.

General market overcapacity has caused problems not just for Saab-Scania, but for many of its competitors. Indeed, it is this general state of distress that leads Mr Kylberg to believe that a far-reaching solution – nothing short of an European Airbus-type consortium in turbo-props – might be possible. "If I had a single New Year wish, this is what I would really like to happen in 1995," he says.

The members of Mr Kylberg's mini-Airbus consortium would be Saab-Scania, British Aerospace, ATR, the French-Italian group, and Germany's Deutsche Aerospace. Forging a collaboration would provide Europe with real clout in its battle with overseas competitors such as Canada's Bombadier and Brazil's Embraer, he argues.

But there is a long way to go and even if agreement can be reached between the four parties, the European competition authorities may not like it. If the venture fails, Mr Kylberg maintains that Saab-Scania can still soldier on on its own, although it is not a prospect which he relishes.

Saab-Scania's aircraft manufacturing plant at Linkoping *Picture: Tony Andrews*

Apart from anything else, he feels the group is at a competitive disadvantage because it cannot offer some of the export credits and other soft financing mechanisms that its rivals can.

Saab-Scania is also seeking to build a strong international alliance for its fighter aircraft, the JAS 39 Gripen. The project has been hit by delays and cost-overruns, and last year suffered the trauma of a high-profile crash during a Stockholm air display.

The group has a healthy order book from the Swedish air force for the aircraft, a multi-purpose reconnaissance and attack fighter, but full commercial success will only come with export orders. That is why Saab-Scania wants an overseas partner.

The company in question is almost certain to be British Aerospace. The two companies have talked for more than a year and a final agreement in the form of a sales and marketing joint venture is likely to be announced during the spring.

BAe has a strong historic position in a number of the markets which Saab-Scania would like to penetrate, including Middle Eastern and Far Eastern countries.

The British group's help in producing an "export" version of the aircraft, which could be adapted to local conditions, is also being sought.

Saab-Scania is definitely not seeking a partner for its Scania bus and truck division, which has consistently proved to be one of the world's most profitable operations in this field. Scania has a number of basic strengths, including modular construction (using the same core module for different truck models) and a strong dealer organisation.

In the past year these advantages have been enhanced by the weakness of the krona and recovering demand and the group has been able to take market share. European production has doubled to 140 trucks a day from 70.

Underscoring the upturn, Scania's sales surged 34 per cent to SKr18.8bn in the first nine months while its order intake jumped 61 per cent to 29,100 trucks and buses. The unit's operating margin reached 14 per cent, about twice the level of Volvo Trucks, a highly-regarded competitor.

Scania's achievements are the more remarkable for the fact that it has not produced a completely new model for many years, contenting itself instead with a gradual refinement of existing models. Mr Kylberg declines to discuss industry rumours suggesting a new model may come as early as next year.

Scania's present production and sales strongholds are Europe and Latin America. It has consistently shied away from the North American market, saying its sixth manufacturing plant – it has three in Europe and two in Latin America – is likely to be in Asia. "We see Asia as our third region," says Mr Kylberg.

Saab-Scania retains a 50 per cent stake in Saab Automobile. This is essentially a financial investment because management is carried out by the other joint owner, General Motors.

There have been rumours that Saab-Scania will sell out, but Mr Kylberg denies it. "We have a good co-operation with GM and wish it to stay like that," he says.

Besides, the group is at last earning money from Saab, which will make its first profit for six years in 1994.

Mr Kylberg does not believe the group is spreading itself too thinly by operating in so many sectors with huge capital requirements. He says vehicle-making is the group's traditional business – Scania is 100 years old and Saab is more than 50 – and that is where its expertise lies. In other words, he is happy with the basic structure of the group.

The only difference is that by the year 2000 he hopes to have several strong international partnerships in place to share some of the burdens.

The secret weapon in Stena's armoury: an artist's impression of the HSS Highspeed Sea Service ferry which will halve normal travel times

Profile: Stena Line

A remarkable comeback

For a company that was in crisis and making heavy losses only three years ago, Stena Line, the world's biggest ferry operator, has staged a remarkable comeback. Despite difficult market conditions in both its Scandinavian and UK markets, it is heading for a record SKr500m profit in 1994 and it is once again planning significant fleet investments.

The severe difficulties experienced earlier in the decade were caused by the company's $570m purchase of Sealink, Britain's second-biggest ferry operator, in 1990. The move left it with huge debt-servicing costs and a need to undertake important restructuring in the newly-acquired operation. The Gothenburg-based company even threatened to close Sealink entirely, barely 18 months after the purchase in a move to force unions to accept drastic cost-cutting.

If Stena ever shared the widespread view that it had overreached itself, these days it has no such doubts. Mr Bo Lerenius, Stena Line president, says: "It was a bold move, but strategically it was definitely the right one." What has changed is not just the outlook for Stena Sealink, but the broader financial recovery which the whole group has staged over the past three years.

It got out of its crisis by hacking back costs, launching a hefty rights issue and convertible loan, and reigning in investments. Together with rising profits and increasing cash flow, the group has been able to pay a substantial part of its debt. It is now confident of getting its equity-to-assets ratio back to the pre-Sealink purchase level of 30 per cent by early next year.

Stena today carries more than 14m passengers a year on 15 routes in 32 vessels. The irony is that the UK routes have ended up supporting the group at a time when its Scandinavian business has suffered from recession and the weak Swedish krona. Passenger numbers on UK routes climbed 10 per cent in the first eight months of this year, while Scandinavian routes saw a 1.4 per cent decrease.

Conditions in both markets have been difficult. In the UK there has been a price war in the run-up to the full start-up of the Channel Tunnel. In Scandinavia, consumer spending has fallen and there has been a sharp fall in travel on some routes in the wake of the Estonia tragedy.

Given that Stena has some 34 per cent of the British passenger shipping market – second only to P&O – it cannot afford to be complacent about the Channel Tunnel. Its main UK route, Dover-Calais, will be competing head-on with tunnel traffic.

Stena is sceptical about Eurotunnel's assumptions that it will eventually gain some 30 per cent of freight traffic and 50 per cent of cars on short-sea cross-channel routes, but it is basing its strategy on them nevertheless.

One solution would be for it to seek an extensive collaboration with P&O, although this would have to meet with the approval of the relevant competition authorities. In any case, it expects the overall market to grow, helped by economic growth in both Britain and France.

Nordic ferry traffic has been hit hard by the sinking of the ferry Estonia, which capsized in heavy seas in September with the loss of more than 900 lives. Stena has suffered less than other shipping groups, partly because it does not operate in the Baltic Sea where the tragedy occurred. The company's passenger volumes in the Swedish and Norwegian markets fell by 12-14 per cent during October and November, although there are now signs of recovery.

Stena, like other ferry operators, is bracing itself for some tough new safety regulations in the wake of the tragedy. Although these will add to costs, it believes the impact will be neutral in competitive terms because rivals will have to implement the same measures.

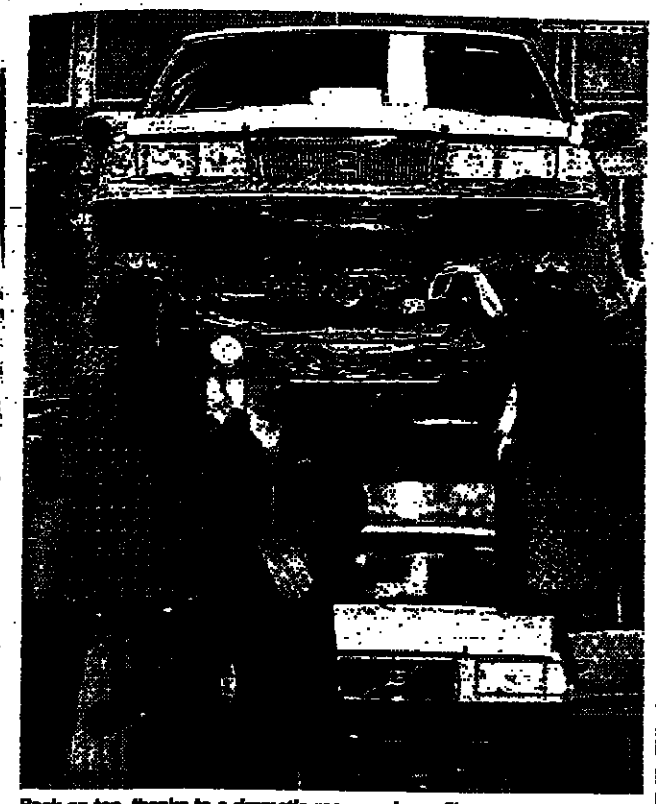
The secret weapon in Stena's armoury is undoubtedly its revolutionary HSS Highspeed Sea Service project, which it has developed with its main owner, Stena AB. Three fast ferries, which will halve normal travel times, have been ordered from a Finnish yard and a fourth is planned. "We are quite convinced that this will change ferry traffic a great deal," says Mr Lerenius. However, some observers regard the project as technically risky, and at a total estimated cost of SKr3bn, it is certainly an ambitious investment.

It is the first time that high-speed ferries will be able to carry lorries, trailers and buses alongside passengers and cars. The boast is that they will offer a degree of comfort and reliability which present fast vessels, such as catamarans, can not. The first of the Finnish-built vessels, which will each be able to carry 1,500 passengers, is due to enter service across the Irish Sea next September.

A lot is riding on the success of the ships, not least because they are an element in the group's overall strategy of enhancing the transport-derived portion of its revenues. The aim is to gradually reduce the company's dependence on duty-free sales which are due to be phased out under European Union rules in 1999.

Already Stena has reduced the proportion of on-board income (including duty-free) as a percentage of total operating income from 55 per cent in 1988 to less than 35 per cent today.

Christopher Brown-Humes



Back on top, thanks to a dramatic recovery in profits Picture: Tony Andrews

Profile: Volvo

Firmly embarked on new strategy

"Firing on all cylinders." "Up to speed again." "Back in top gear". To the relief – and pride – of most Swedes, the motoring metaphors have been flowing thick and fast this year for Volvo, the country's biggest manufacturer.

Thanks to a dramatic recovery in profits, memories of the ignominious collapse at the end of 1993 of Volvo's plans to merge with France's Renault have faded fast. Volvo returned a 12-fold growth in pre-tax profits in the first nine months of the year to record a surplus of SKr12.7bn, on turnover of SKr112.2bn.

Under the energetic Mr Sören Gyll, the chief executive who has emerged as the new dominant figure in Volvo, the company is firmly embarked on a new strategy to focus on its core vehicle-making operations. By the end of 1996, it intends to have sold off all its non-core assets, raising a total of some SKr40bn to finance the future development of cars and trucks.

Volvo has to decide whether to make a belated response to four-wheel-drive vehicles

Today, there is a widely-held view in the industry that Volvo Truck Corporation is already in strong shape. At the nine-month stage, worldwide unit truck sales were up 38 per cent at 49,400, delivering a jump in operating profits to SKr2.7bn that produced an operating margin of seven per cent.

The big question mark, however, hangs over the future of Volvo Cars, the biggest division by sales value and the real heart of the company in the eyes of a nation which has always regarded Volvo as Sweden's industrial flagship.

The car corporation also produced a big improvement in the first nine months: unit sales, at 269,600, were up 18 per cent; operating profits went from near break-even to SKr1.95bn. But Mr Gyll was quick to admit that the operating margin of 4 per cent, achieved as Volvo approaches the top of the business cyle, fell far short of the 7 per cent average he says the car division needs to achieve over a complete cycle.

Uncomfortably for Volvo, it is setting out to achieve this as a niche player in the worldwide car industry at a time when the trend among its competitors has been towards building volume..

Volvo is now one of the world's smallest producers of mainstream vehicles, with a basic range of just three cars in the 900, 800 and 400 series. Many in Sweden who argued against the merger with Renault said Volvo should set out to become a "Swedish BMW". Within months of Volvo choosing that path, however, the German carmaker itself opted to make a quantum leap in its volume output by buying Britain's Rover.

Mr Gyll and Mr Per-Erik Mohlin, head of the car division, are well aware of this background. But they argue that there are still opportunities for a manufacturer of Volvo's size – Mr Mohlin says he is aiming for optimum output of 500,000 cars a year – given its powerful brand name and the vital ability of smaller manufacturers to use modern production techniques to be more responsive to customer demand.

On the marketing front, Mr Mohlin intends to stretch Volvo's traditional appeal to family car buyers – primarily through its famously roomy estate cars – to what he calls "pre-family" and "post-family" buyers. The intention is to build on Volvo's reputation for safety, reliability and environmental friendliness to embrace at the same time greater "driveability", with more emphasis on performance. The implication of this for production is for sportier models, with more attention to interior comforts. Volvo is not about to abandon estate cars, but it will concentrate harder on producing attractive saloons that get away from the "boxy and boring" image of the past – and give greater added sales value. The trail has already been blazed to some extent by the successful 850 model; one in four 850s sold are the turbo-engined version.

Volvo also has to decide whether to make a belated response to the inroads made into the estate car market by four-wheel-drive vehicles and "people carriers". Although no definite decision has been announced, all the indications are that Volvo will not attempt any significant extension of its basic production range.

Rather, Mr Mohlin says, Volvo will probably cut down from three basic "platforms" – or chassis – to two; the 800 and the medium-small sized 400 series. The 400 series is produced in the Netherlands in a joint venture with Japan's Mitsubishi. From these, Volvo will seek to produce a more varied range of models.

"We know it is possible to develop more cars from a single platform. The trick is to utilise common components, but to differentiate the products," Mr Mohlin says.

He says the aborted merger with Renault has cost Volvo more than a year in its vital programme to develop new models. This has increased the pressure to produce a successful formula that will carry Volvo over the next downturn in the cycle and prove that it can thrive as an independent carmaker.

The headline writers will be no less ready with their cliches if it fails. "Volvo stalls", "Breakdown" and "Running out of fuel" are the banners Mr Gyll and Mr Mohlin are determined to avoid.

Hugh Carnegy

Andrew Baxter reports on manufacturing industry

Big productivity increase

Management and employees in Swedish manufacturing industry deserve much of the credit for a transformation in the country's industrial competitiveness since the early 1990s, but their own efforts and government policy will dictate whether further progress can be made.

Two important factors have transformed the competitiveness of Swedish industry, according to Mr Magnus Lemmel, director-general of the Federation of Swedish Industries. The first is the Swedish krona's *de facto* devaluation of 25 per cent in the past two years, which has restored manufacturers' ability to compete in the European market.

The second change, says Mr Lemmel, is a big increase in industry's productivity over the past few years. In the long term, this is more important, he says. The krona may rise in value, but the effects of increased productivity will endure.

The increase in productivity has come through a mixture of government and industry efforts. Cuts in sick-leave benefits made by the former, pre-1991 Social Democratic government had a very important effect, reducing absenteeism by about 20 per cent.

Since then, the recession across much of Sweden's industrial sector – whether export-oriented or reliant on the domestic market – has led to big reductions in employment. "We are now producing more, with much less labour," says Mr Lemmel.

Prompted partly by the downturn, important internal improvements in manufacturing have come, with better management, logistics, and flow of goods, all designed to raise productivity. Labour-management relations are much improved, and discussions are conducted in a good atmosphere, he says.

Mr Lemmel might be expected to promote Swedish industry's achievements but his views are corroborated by observers of the Swedish industrial scene.

Mr John McDowall, a British Steel executive director, has been making monthly trips to Sweden in the past year as chairman of Avesta Sheffield, the Anglo-Swedish stainless steel producer. He says he is very encouraged by the company's productivity improvements and the positive attitude of workers and trade unions.

Mr Lemmel is now looking to Sweden's new minority Social Democratic government to "do the right things" to ensure that the business climate remains favourable. A crucial factor, he says, will be the extent to which reductions in the budget deficit are achieved through spending cuts rather than increased taxes, and "judgment day" will be January's budget.

"So far, the emphasis has been on raising taxes, but the balance needs to be changed," he says. Increased taxes on employment, for example, would hamper industry's ability to grow.

The recent retrenchment and reorganisation in Swedish industry, and the current attitude of multinational companies to manufacturing there, is well illustrated by the experiences of two companies with deep Swedish roots, but whose global headquarters are abroad.

Asea Brown Boveri, Europe's largest electrical engineering group, employs about 27,000 people in Sweden, a reduction of about 3,000 since 1990-91. The reductions, it says, took place mainly in those businesses affected by the domestic recession, notably in the construction market.

As a manufacturing base, it says, Sweden's situation is now very favourable. "We have a cost base that makes us very competitive in the international market, not least thanks to the krona situation."

But it stresses that the weak krona is only part of the story. A special export campaign, and Swedish ABB's much-admired T50 customer focus programme, presided over by Mr Bert-Olof Svanholm, its chief executive, have laid the internal foundation for success.

As an example of what the process has achieved, it cites ABB Stal in Finspong, which in 1990 supplied six gas turbines worth about SKr500m. Next year's target is deliveries worth SKr2bn, equivalent to 25 gas turbines, with a workforce that has increased by only 15 per cent.

ABB Sweden echoes Mr Lemmel by calling for the public finances to be put on a sound basis, and warning of the vital importance that the continuing positive development of industry is not hindered in any way.

SWEDEN'S INDUSTRIAL REVIVAL
(percentage change per year)

	Industrial productivity	Unit labour costs	Industrial production
1985	+1.6	+9.0	+2.0
1986	+1.9	+6.2	+1.2
1987	+1.7	+4.5	+2.4
1988	+1.4	+5.2	+2.9
1989	+3.1	+7.2	+1.0
1990	+1.6	+8.5	-0.6
1991	+0.9	+7.6	-5.5
1992	+6.7	-3.6	-0.7
1993	+9.1	-6.7	+1.8
1994*	+3.6	+0.1	+9.0
1995*	+2.9	+2.6	+7.0

Note: *Forecast Source: National Institute of Economic Research, Central Bank

Meanwhile VME Group, the Brussels-based producer of construction equipment, has reduced its Swedish workforce from about 6,500 in 1989 to 4,400, and closed three plants, at Landskrona, Lund and Karlskrona (the last two came with the acquisition in 1991 of Akermans, the hydraulic excavator producer).

The closures were part of a worldwide reorganisation in response to the recession, says Mr Tuve Johannesson, president and chief executive. They were accompanied by significant restructuring of the factories that remained, to increase productivity and shorten lead times.

With a reduced manufacturing base, the recent upturn in sales has lead to a dramatic improvement in profitability, in the form of a $200m turnround out of the red over the past two years.

Mr Johannesson says that Swedish industry was "completely lacking in realism" in the late 1980s and early 1990s, and "only started to sober up during the recession." Now, he says, there is good reason to be *"fundamentally positive"* about Sweden as a country in which to invest and manufacture.

He too, though, is worried by the new government's attitudes to business taxation, and the possibility of increased income tax.

Another concern, says Mr Johannesson, is the possibility of renewed "imported inflation" because of raw material shortages and the present weak currency. Increased inflation would automatically stimulate a renewed debate on wages, and a return to bad habits.

Any rise in the krona over the next few years – as a result, perhaps, of tough action to control the budget deficit – would reduce the cost of industry's imported raw materials. That would partially offset the reduced benefits for exporters, which in turn would encourage manufacturers to continue raising their productivity.

The bright outlook for manufacturing, notwithstanding the concerns about government policy, has been enhanced by last month's referendum on Sweden joining the European Union.

Large international companies such as ABB and VME say the positive result has removed a risk that would have had to be assessed when making a long-term investment decision. Slowly, investments in Sweden would have declined in favour of EU countries.

In terms of business opportunities, though, the real beneficiaries are likely to be Sweden's smaller engineering sub-contractors, says Mr Thomas Oldér, president and chief executive of Svedala Industri, the big mineral processing and construction equipment group.

"It would have been very easy for us to have slowly moved more manufacturing into other countries," he says. "Our sub-suppliers at home would have been the ones to suffer."

Profile: Kalmar Industries

Master of its own destiny

Kalmar is the world's largest producer of heavy lift trucks – which pick up and stack laden shipping containers

Recent events at Kalmar Industries, based at Ljungby in southern Sweden, provide a classic example of the changes that Swedish industry has undergone as it grappled with recession and aimed to increase its productivity and competitiveness.

The company is the world's largest producer of heavy lift trucks – the kind that can pick up and stack huge laden shipping containers – and also makes sideloaders and light- and medium-sized lift trucks (forklifts).

It has 500 workers at Ljungby and 250 at nearby Lidhult, where Sweden's first lift trucks were developed at the end of the 1940s – with the help, initially, of a local blacksmith. Its biggest Swedish competitor in heavy lift-trucks, Svetruck, is also based in Ljungby.

Since 1990, restructuring has dominated the agenda at Kalmar. It has reduced the worldwide workforce by 27 per cent to 1,150, with the bulk of the cuts outside Sweden. Production of Irion sideloaders was moved last year from a plant near Stuttgart to Sweden, involving the loss of 180 jobs in Germany.

The flotation has come against a backdrop of much better financial performance

In the UK, where Kalmar bought Coventry-Climax in 1987, production of the Climax range of light trucks for the UK market was discontinued in 1992, and is now outsourced to US and Japanese suppliers.

At home, emphasis has focused on boosting productivity. Absenteeism has been sharply reduced, co-operation between unions and management has replaced confrontation, teamwork and flexibility are the buzzwords.

Bringing manufacturing back to Sweden from Germany was thus a sign of confidence in the ability to manufacture competitively at Ljungby – helped, naturally, by the devaluation of the krona in late 1992. It also helped fill spare capacity caused by the recession, which prompted a sharp fall in demand in a number of important product and geographic markets. Worldwide sales fell from SKr1.62bn in 1990 to SKr1.36bn in 1992, turning a profit of SKr59m, after financial items, into a loss of SKr34m.

There was an improvement last year, especially on the heavier side of the business, and sales of SKr1.6bn produced a profit of SKr34m after financial items. So, in mid-January, when Mr Jonas Svantesson joined the company as president and chief executive, he found it in good shape.

"A lot of restructuring had been done, and the workers' loyalty and ambition was very strong," he says. "I thought that if everyone could be pointed in the same direction, it had enormous potential."

Just two months after Mr Svantesson arrived at Kalmar, he was told that its then owner, Svedala, planned to dispose of the company.

In late spring, the lift truck producer was floated on the Stockholm Stock Exchange, and now has some heavyweight UK institutions among its shareholders.

The change in status is seen as a new beginning for Kalmar, which became caught up in some of the big recent corporate deals in Sweden and was often too small a part of its parent companies' business to be given much priority.

Procordia, the former state-affiliated holding company, sold then loss-making Kalmar to the engineering group Componenta in 1989, but Componenta was itself purchased by Svedala two years later.

Mr Svantesson welcomes Kalmar's new freedom to make decisions as master of its own destiny, without having to refer them to a parent company. Workers' loyalty to the success of the company is now much greater, he says, and in any case some of the expected synergies between Svedala and Kalmar had not materialised.

The flotation has come against a backdrop of much better financial performance, with profits of SKr110m after financial items for the first nine months of the year, compared with just SKr10m a year earlier. Improved profitability has spruced up the balance sheet, with net debt falling from SKr275m at the end of last year to SKr67m.

The light and medium sized truck business has improved sharply, catching up with the heavy side, but there is still room for further improvement.

For the future, Mr Svantesson's strategy for Kalmar is to keep it in lift-trucks, seeking protection from some of the vagaries of the market by building a balanced business rather than diversifying out of materials handling.

First, he wants to build up the non-cyclical parts of the business. Already, 50 per cent of Kalmar's turnover relates to container handling, in ports and terminals, which is non-cyclical. The forestry and steel sector markets account for 40 per cent, but are very cyclical.

Mr Svantesson has important geographic targets too. North America accounts for 5 per cent of sales, but he aims to grow that to 15 per cent.

The company is looking closely at how to expand in the three leading Latin American markets of Brazil, Argentina and Chile, but the big growth prospect is Asia, he says.

The region accounts for 13 per cent of sales, but this could grow to 20 per cent, says Mr Svantesson. China's huge planned expansion of port capacity is potentially good news for Kalmar's sales of container-handling lift trucks, but other Asian countries also represent tempting prospects.

At present, Kalmar is happy to be manufacturing all its machinery in Sweden, although production in Asia is not ruled out if demand warrants it.

With 90 per cent of its sales outside Sweden, the krona's devaluation has helped sales of light and medium-sized trucks, where competitors typically produce in countries with strong currencies such as Japan and Germany. In contrast, Kalmar's competitors on the heavy side are mainly from nations with weak currencies such as Finland, Italy or Sweden itself.

Along with many Swedish businessmen, though, Mr Svantesson is in favour of a stronger krona – which would be a sign that the government is grappling with the budget deficit. Also, he notes, 55-60 per cent of the production value of Kalmar's lift trucks products is bought in from suppliers, and half of that comes from abroad.

If the krona does rise, Kalmar will have to continue raising productivity to remain competitive in overseas markets. Mr Svantesson makes clear that the company will not be resting on its laurels: further efficiency gains can be made at the Swedish plants through improved production flows and other changes – without huge investments, he says.

Andrew Baxter